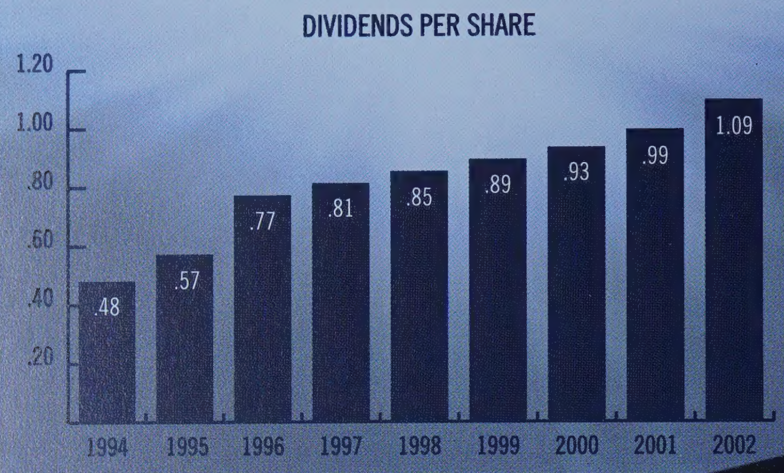
FIRST CAPITAL REALTY INC. ANNUAL REPORT 2002

OUR BUSINESS IS SHOPPING CENTRES

applying a growth strategy to a stable business



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President & CEO


Sylvie Lachance
Executive
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Chief Financial Officer


Derek Hull
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Francois J. Le Rouzes
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Monique Dubord
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Ron Marek
Controller


Alexandra Correia
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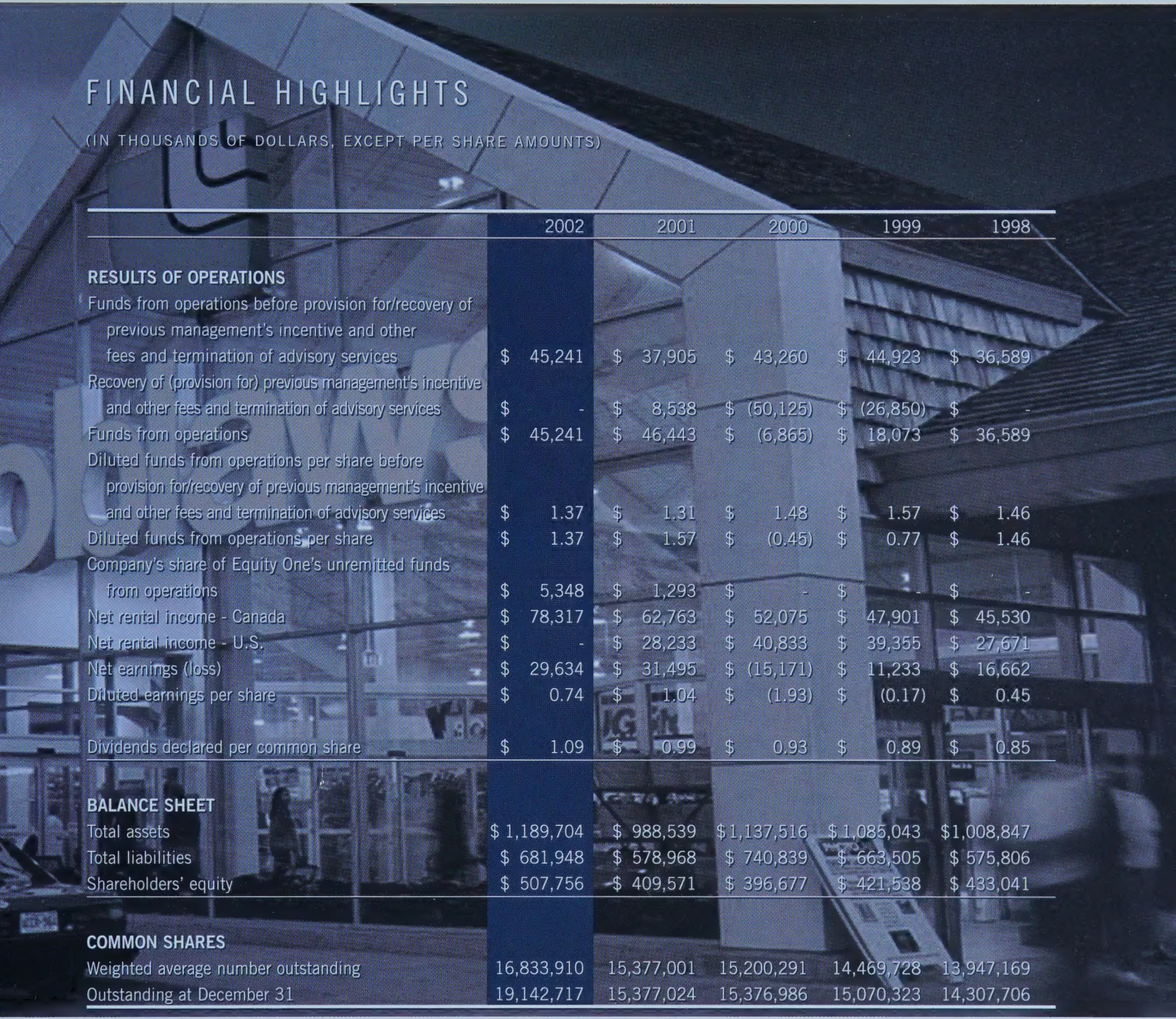


FINANCIAL HIGHLIGHTS

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000	1999	1998
RESULTS OF OPERATIONS					
Funds from operations before provision for/recovery of previous management's incentive and other fees and termination of advisory services	$ 45,241	$ 37,905	$ 43,260	$ 44,923	$ 36,589
Recovery of (provision for) previous management's incentive and other fees and termination of advisory services	$ -	$ 8,538	$ (50,125)	$ (26,850)	$ -
Funds from operations	$ 45,241	$ 46,443	$ (6,865)	$ 18,073	$ 36,589
Diluted funds from operations per share before provision for/recovery of previous management's incentive and other fees and termination of advisory services	$ 1.37	$ 1.31	$ 1.48	$ 1.57	$ 1.46
Diluted funds from operations per share	$ 1.37	$ 1.57	$ (0.45)	$ 0.77	$ 1.46
Company's share of Equity One's unremitted funds from operations	$ 5,348	$ 1,293	$ -	$ -	$ -
Net rental income - Canada	$ 78,317	$ 62,763	$ 52,075	$ 47,901	$ 45,530
Net rental income - U.S.	$ -	$ 28,233	$ 40,833	$ 39,355	$ 27,671
Net earnings (loss)	$ 29,634	$ 31,495	$ (15,171)	$ 11,233	$ 16,662
Diluted earnings per share	$ 0.74	$ 1.04	$ (1.93)	$ (0.17)	$ 0.45
Dividends declared per common share	$ 1.09	$ 0.99	$ 0.93	$ 0.89	$ 0.85
BALANCE SHEET					
Total assets	$ 1,189,704	$ 988,539	$ 1,137,516	$ 1,085,043	$ 1,008,847
Total liabilities	$ 681,948	$ 578,968	$ 740,839	$ 663,505	$ 575,806
Shareholders' equity	$ 507,756	$ 409,571	$ 396,677	$ 421,538	$ 433,041
COMMON SHARES					
Weighted average number outstanding	16,833,910	15,377,001	15,200,291	14,469,728	13,947,169
Outstanding at December 31	19,142,717	15,377,024	15,376,986	15,070,323	14,307,706

FIRST CAPITAL REALTY INC. (TSX:FCR) is a growth-oriented, publicly traded real estate company that concentrates on the ownership of neighbourhood and community shopping centres in growing areas in Canada and the United States.

The Company's primary objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. In Canada, this objective is achieved by proactively managing the existing shopping centre portfolio, through a focused and disciplined acquisition strategy and by undertaking selective development and redevelopment activities. In the United States the company is active through its holdings in Equity One, Inc. (NYSE:EQY), one of the largest neighbourhood and community shopping centre real estate investment trusts in the southern United States. First Capital Realty is managed by experienced real estate professionals who have a significant interest in creating long-term value for all shareholders. First Capital Realty's common shares, convertible debentures, debentures and warrants trade on the Toronto Stock Exchange.

MESSAGE TO OUR SHAREHOLDERS

I AM PLEASED TO REPORT THAT 2002 WAS A YEAR OF SIGNIFICANT GROWTH. IN CANADA, WE CONTINUED TO BUILD OUR BUSINESS, TO INCREASE THE OVERALL SIZE OF OUR QUALITY PORTFOLIO OF SUPERMARKET ANCHORED SHOPPING CENTRES AND TO GROW OUR FFO AND OUR CAPITAL BASE.

Similarly, our U.S. affiliate, Equity One, has made significant progress in growing its business, marked by its strategic acquisition of IRT Property Company after which it became one of the largest retail REITs in the southern United States and definitely, the most dominant in Florida.

After a year of transition in 2001, making the Company simpler to manage and understand while placing it on a firmer foundation for growth, our focus in 2002 was on further growing our business and making it more profitable. The sale of our U.S. portfolio in 2001 to Equity One in exchange for shares, and the US$70 million raised which was secured by those shares, provided us with the means to fund our growth.

2002 – BUILDING REAL VALUE

In Canada, we continued to acquire and develop neighbourhood and community shopping centres anchored by supermarkets. We are beginning to feel the positive impact of the size of our portfolio and the synergies it creates for us which, right along with the level of our development activity, translates into better results.

In our Canadian portfolio, over the 12 months since my last Message to Shareholders, we spent over $200 million acquiring 16 properties and bringing four development projects on line. We increased the number of properties by 33% and our square footage by 22%. To-date, we have interests in 70 properties with a total of 8.8 million square feet.

In fiscal 2002, our diluted funds from operations was $1.37 per share. This represents a 5% increase over 2001, excluding recovery of previous management's incentive and other fees. This increase was achieved while growing our equity base and the number of shares outstanding.

Our U.S. affiliate, Equity One, has performed well and we are very pleased with its success. Subsequent to year end, Equity One acquired Atlanta-based IRT Property Company. As a result, our ownership position shifted from 33% to 21%. We are now Equity One's second largest shareholder. We also realized a dilution gain of approximately $12 million, which will be recorded in our 2003 first quarter results.

Our strategy in dealing with our U.S. investment has been a success. Equity One's management has turned a mid-sized REIT into a larger, stronger company with 178 properties totalling approximately 18.5 million square feet, operating in the southern United States, mainly in markets which are growing better than the U.S. average. Its equity market capitalization has grown to approximately US$900 million with a public float of approximately US$375 million.

Further, Equity One recently received a BBB- and Baa3 investment grade rating from Standard & Poor's and Moody's Investors Service, respectively. This facilitated a US$340 million unsecured line of credit, which they obtained from a group of banks led by Wells Fargo, to fund part of the IRT transaction's cash consideration and Equity One's future growth.

APPLYING A GROWTH STRATEGY TO A STABLE BUSINESS

For First Capital Realty, a shopping centre is not only an investment providing stable, recurring cash flows, it is our business – a tangible bricks and mortar enterprise that must be actively and carefully managed to grow cash flow and maximize value. We take a long-term view in running our business and will continue to grow it and deliver shareholder value.

First Capital Realty buys only good real estate and has a proven ability to acquire shopping centres and add value. We consider our properties to be 70 separate businesses and each of them requires a lot of attention to maximize cash flow.

First Capital Realty has a three-pronged growth strategy:

- **Active portfolio management**. We continue to upgrade our shopping centres by spending on such things as facades, parking lots, lighting, signage and access points. In today's competitive environment, tenants are knowledgeable and sophisticated, so we ensure that their experience in a First Capital Realty centre is a positive one.
- **Disciplined acquisitions**. We focus on well-located neighbourhood and community shopping centres that are anchored with tenants providing daily necessities, like supermarkets. Currently, 65 of our 70 Canadian shopping centres are supermarket or drugstore anchored. We will continue to expand in our existing markets, where we derive management and leasing synergies and will only enter new markets when we can do so with enough critical mass.
- **Selective development & redevelopment**. These activities remain key to the success of our business, allowing us to better participate in growth markets and improve the returns on our portfolio.

In summary, in 2002 we continued to execute on our philosophy of applying a growth strategy to a stable business.

OUTLOOK

In 2003, First Capital Realty's main objective is to continue growing FFO and maintain asset quality, while increasing our equity base and the liquidity of our shares.

The real estate industry is consolidating and we intend to take advantage of new opportunities. We will continue to grow our portfolio logically and sensibly and will remain focused on supermarket-anchored shopping centres in growing communities.

We expect to spend approximately $100 million on acquisitions in 2003, and $60 million on our development activities, while continuing to maximize value in our existing portfolio.

First Capital Realty is optimistic about its future. We have a very focused and clear strategy on how to manage and grow our business, and we are well positioned to continue to deliver value to our investors.

We are comfortable with our guidance of diluted FFO per share of $1.42-$1.46 for 2003. Approximately 78% of this FFO will be derived from Canada and the remaining 22% from our investment in Equity One.

We remain committed to full, transparent disclosure and sound corporate governance. The majority of our Board of Directors is independent from management. Our key committees, Audit, Compensation and Governance, continue to be comprised solely of independent directors.

To First Capital Realty's investors, I would like to express my thanks for your confidence. I would also like to thank our tenants and joint venture partners for their support, our employees and the property manager's employees for their dedication and hard work and to our Board of Directors, under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

I look forward to updating you on our progress throughout the year.

Sincerely,

Dori J. Segal
President and Chief Executive Officer
April 10, 2003

SHOPPING CENTRE PORTFOLIO
DECEMBER 31, 2002

Property Name and Location		Year Built or Acquired	Gross Leasable Area[5]	Major or Anchor Tenants
ONTARIO				
Cedarbrae Mall	Toronto	1996	474,000	Loblaws, Zellers, Canadian Tire, Toys 'R' Us, LCBO, Bally Total Fitness
Fairview Mall	St. Catharines	1994	377,000	Food Basics (A&P), Zehrs (Loblaws)[4], Zellers, Cineplex, Chapters, Office Depot, LCBO, Future Shop, Mark's Work Wearhouse, Home Depot[4]
Brantford Mall	Brantford	1995	296,000	Zehrs (Loblaws), Wal-Mart, Cineplex
Brampton Corners	Brampton	2001	291,000	Fortino's (Loblaws), Wal-Mart, Chapters
Tillsonburg Town Centre	Tillsonburg	1994	244,000	Valu-Mart (Loblaws), Zellers, Canadian Tire
Bridgeport Plaza	Waterloo	1994	211,000	Sobeys, Zellers
Parkway Centre	Peterborough	1996	208,000	Price Chopper (Sobeys), Zellers, Winners
Harwood Plaza	Ajax	1999	188,000	Food Basics (A&P), Shoppers Drug Mart
Queenston Place	Hamilton	1995	172,000	Zellers, Office Depot, Mark's Work Wearhouse
Sheridan Plaza	Toronto	1996	168,000	Food Basics (A&P), Zellers
Stanley Park Mall	Kitchener	1997	155,000	Zehrs (Loblaws), Zellers, LCBO
University Plaza	Windsor	2001	152,000	A&P, Canadian Tire, Shoppers Drug Mart
Westney Heights Plaza	Ajax	2002	148,000	Sobeys, Shoppers Drug Mart
Ambassador Plaza	Windsor	1994	137,000	Zellers, LCBO, CIBC, Scotiabank
Festival Marketplace	Stratford	1997	126,000	Sears[4], Canadian Tire[4]
Orleans Gardens	Ottawa	1997	111,000[1]	Your Independent Grocer (Loblaws)
Thickson Place	Whitby	1997	93,000	A&P, Toys 'R' Us[4]
Byron Village Shopping Centre	London	2002	89,000	A&P, LCBO, Pharma Plus
McLaughlin Corners	Brampton	2002	85,000[1]	A&P
Midland Lawrence Plaza	Toronto	2002	76,000	Price Chopper (Sobeys)
Eagleson Place	Ottawa	1997	75,000	Loblaws
Towerhill Shopping Centre	Peterborough	2001	70,000	Sobeys
Steeple Hill Shopping Centre	Pickering	2000	66,000	Price Chopper (Sobeys), Shoppers Drug Mart
Northfield Centre	Waterloo	1999	52,000[1]	Sobeys, Pharma Plus
Wellington Corners	London	1999	38,000	Price Chopper (Sobeys)
Delta Centre	Cambridge	1998	9,000	Wendy's
			4,111,000	
WESTERN CANADA				
Northgate Centre	Edmonton, AB.	1997	517,000	Safeway, Zellers, Future Shop, Sport Mart
South Park Centre	Edmonton, AB.	1996	378,000	Zellers, Canadian Tire, Toys 'R' Us[4], Office Depot, Linen's 'N' Things, Sport Chek
The Village Market	Sherwood Park, AB.	1997	113,000	Safeway, London Drugs
Red Deer Village	Red Deer, AB.	1999	109,000	Mark's Work Wearhouse, Sport Mart, TDCanada Trust
Gateway Village	St. Albert, AB.	1994	107,000	Safeway, Scotiabank
West Lethbridge Towne Centre	Lethbridge, AB.	1998	83,000	Safeway, Home Hardware
Sherwood Centre	Sherwood Park, AB.	1997	76,000	Save-on-Foods[4], CIBC, Rogers Video
London Place West	Calgary, AB.	1998	71,000	London Drugs, Rogers Video
Regent Park Shopping Centre	Regina, SK.	1999	66,000	Safeway
Leduc Towne Square	Edmonton, AB.	1997	46,000	Safeway[4], Canadian Tire[4], Shoppers Drug Mart
Sherwood Towne Square	Sherwood Park, AB.	1997	41,000	Staples, Home Depot[4]
Registan Shopping Centre	Regina, SK.	1999	26,000	Safeway
			1,633,000	

Property Name and Location		Year Built or Acquired	Gross Leasable Area[5]	Major or Anchor Tenants
QUEBEC				
Galeries Normandie	Montreal	2002	224,000	IGA (Sobeys), Provigo (Loblaws), SAQ, Rossy
Centre Domaine	Montreal	2002	193,000	Metro[4], Zellers, Rossy
Centre commercial Cote St. Luc	Cote St. Luc	2002	180,000	IGA (Sobeys), Jean Coutu, SAQ
Les Galeries de Lanaudiere	Lachenaie	2002	177,000[1]	Staples, Winners, Future Shop, Sears Home, Home Depot[4]
Plaza Delson	Delson	2002	160,000	Loblaws, Jean Coutu, Cineplex, SAQ
Carrefour St. Hubert	St. Hubert	2002	156,000	Provigo (Loblaws), Jean Coutu
La Porte de Gatineau	Gatineau	1994	155,000	Maxi (Loblaws), Toys 'R' Us[4], Future Shop, SAQ
La Porte de Chateauguay	Chateauguay	1995	132,000	Zellers
Centre commercial Beaconsfield	Beaconsfield	2002	124,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ
Place Viau	St. Leonard	2002	124,000	Maxi (Loblaws)[4], Zellers
Place Pointe-aux-Trembles	Pointe-aux-Trembles	2002	121,000	Metro, Jean Coutu, Rossy
Les Galeries de Repentigny	Repentigny	1997	119,000	Super C (Metro), Pharmaprix (Shoppers Drug Mart)
Centre commercial Wilderton	Montreal	2002	115,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ
Place Fleury	Montreal	2002	115,000	Metro, Pharmaprix (Shoppers Drug Mart), SAQ, Rossy
Centre commercial Van Horne	Montreal	2002	83,000	IGA (Sobeys), Pharmaprix (Shoppers Drug Mart)
Place Vilamont	Laval	2002	73,000	Provigo (Loblaws), Jean Coutu
Place Cite Des Jeunes	Hull	2001	60,000	Metro, Uniprix
Place Nelligan	Gatineau	2002	57,000[2]	IGA (Sobeys)
Les Promenades du Parc	St. Hubert	1997	56,000	IGA (Sobeys)
Toys 'R' Us / Pier 1 Imports	Anjou	2002	52,000	Toys 'R' Us, Pier 1 Imports
Galeries Brien	Repentigny	2002	43,000	IGA (Sobeys), Uniprix
Place Roland Therrien	Longueuil	2000	42,000	Super C (Metro)[2], Canadian Tire[2], Scotiabank, Blockbuster
Village des Valeurs	Laval	2002	27,000	Value Village
Place Bordeaux	Aylmer	2002	17,000[3]	Pharmaprix (Shoppers Drug Mart)
			2,605,000	
MARITIMES				
Cole Harbour Shopping Centre	Dartmouth, NS.	1997	52,000	Sobeys[4], Canadian Tire[4]
Ropewalk Lane	St. John's, NF.	1997	40,000	Dominion (Loblaws)[4]
Highfield Park	Dartmouth, NS.	1997	13,000	Tim Hortons, Ultramar
			105,000	
TOTAL CANADA			**8,454,000**	

(1) First Capital's interest is 50%
(2) First Capital's interest is 75%
(3) First Capital's interest is 80%
(4) Tenant (or other) owned
(5) Excludes tenant (or other) owned

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty Inc. ("First Capital Realty" or the "Company") was incorporated under the laws of the Province of Ontario by articles of incorporation dated November 10, 1993. The Company, directly and through subsidiaries, invests in neighbourhood and community shopping centres in Canada. The Company also invests in the U.S. through its common share holding of Equity One, Inc. (NYSE:EQY) ("Equity One"), a neighbourhood and community shopping centre REIT operating mainly in the southern U.S.

As at December 31, 2002, First Capital Realty's Canadian income producing shopping centre portfolio consisted of 65 properties containing approximately 8,458,000 square feet of gross leasable area. The Company's Canadian shopping centres average 130,000 square feet in size (2001 – 141,000 square feet) and have an average net book value of $111 per square foot (2001 – $112 per square foot). As at December 31, the Canadian portfolio is summarized as follows:

(As at December 31)	2002		2001	
Location	Number of Properties	Gross Leasable Area (1) (000's sq. ft.)	Number of Properties	Gross Leasable Area (1) (000's sq. ft.)
Ontario	26	4,111	22	3,661
Quebec	24	2,605	6	555
Western Canada	12	1,633	12	1,722
Maritimes	3	105	3	105
Total	65	8,454	43	6,043

(1) Net of anchor-owned area

Including properties held through its $209 million investment in Equity One, at December 31, 2002 the Company had interests in 153 properties totalling approximately 17.0 million square feet of gross leasable area.

First Capital Realty's primary objective is the creation of value through long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. This objective is achieved by actively managing the existing shopping centre portfolio, by a focused and disciplined acquisition strategy and by undertaking selective development and redevelopment activities.

2002 was a year of significant growth for the Company, due to the acquisition of 18 properties and four development projects coming on line. This was a 51% increase in the number of properties and a 40% increase in gross leasable area. The Company has financed this growth through a combination of mortgage and credit facility debt, the proceeds of the financing secured against the Equity One shares and the issue of common stock, convertible debentures and share purchase warrants.

Management intends to continue to grow the business, where it makes financial sense, primarily by acquiring properties that are supermarket anchored. In addition, Management will look for strategic or portfolio acquisitions, both in existing markets and markets where the Company may not yet have a significant presence.

The Company will also continue to pursue selective development and redevelopment activities, either alone or with joint venture partners, in order to participate in growth markets and to improve the return on the portfolio.

OPERATIONS

Acquisitions and Dispositions

The Company follows a focused and disciplined acquisition strategy by investing in well-located neighbourhood and community shopping centres with anchor tenants, like supermarkets, that provide daily and basic necessities. In management's view, such tenants are somewhat less sensitive to economic cycles. In total, 60 of the Company's 65 shopping centres are supermarket and/or drug store anchored.

During 2002, the Company acquired 18 shopping centres for $162 million, totalling over two million square feet of gross leasable area. Of these, 17 were anchored by grocery stores, and 13 also included drug stores as additional anchors. The Company also purchased land adjacent to five of its centres in order to increase revenue, facilitate future redevelopment and to provide better access to the property.

In 2001, three properties were acquired totalling 0.5 million square feet, including three supermarkets and two drug stores. In addition, in 2001 the Company increased its interest in another five shopping centres and two land sites held for development totalling 0.3 million square feet from 50 to 100% through acquisition of its development partner's interest in these properties.

Following are details on the 18 properties acquired in 2002:

- On January 31, 2002 the Company acquired a portfolio of six neighbourhood and community shopping centres in the Greater Montreal area, with approximately 0.8 million square feet of gross leasable area. The $58 million purchase price was satisfied by 7.07% ten-year mortgage debt on four of the six centres totalling approximately $27.4 million with the balance paid in cash. All six of these properties are grocery store and drug store anchored. This portfolio of properties at December 31, 2002 was generating an unlevered annualized return of approximately 10.7%.

- Effective April 1, 2002, the Company purchased from its largest shareholder, Gazit 1997 Inc. ("Gazit"), all of the real estate assets Gazit held in Canada through the acquisition of the common shares of First Capital Inc. ("FCI"). The transaction was reviewed by the Company's Compensation and Corporate Governance Committee which is composed solely of independent directors. In addition, the Company received a valuation of FCI and an independent opinion as to the fairness, from a financial point of view, of the consideration paid. The FCI portfolio comprises six neighbourhood and community shopping centres and two freestanding retail buildings in the Greater Montreal area, with approximately 0.8 million square feet of gross leasable area. Mortgages payable secured by seven of the eight properties totalled $22.9 million, with a weighted average interest rate of 7.7%. The aggregate purchase price of $31.65 million for the FCI shares was satisfied through the issuance of 601,630 common shares of the Company (at $12.30 per share) and $28.16 million in principal amount of the Company's 7.25% convertible debentures. Seven of the eight properties are anchored by supermarkets, and there are four drug stores in the portfolio. This portfolio of properties at December 31, 2002 was generating an unlevered annualized return of approximately 10.1%.

- The remaining four properties acquired during 2002, containing a total of 0.5 million square feet, were purchased in four separate transactions. Of the $47.5 million paid in total, $23.3 million was in cash, $15.0 million was financed by a short-term vendor take back mortgage which was repaid before year end, $8.3 million was financed by fixed rate mortgage debt on one property at 7.1%, and $0.9 million was paid in common shares of the Company. Details on the four individual properties acquired in 2002 are as follows:

- In May, the Company purchased Carrefour St. Hubert, a 156,000 square foot centre in St. Hubert, Quebec for $8 million. This centre is anchored by a Provigo and Jean Coutu, and is strategically located across the street from Les Promenades du Parc, a shopping centre that the Company also owns.

- Westney Heights Plaza in Ajax, Ontario, was purchased in August for approximately $21 million. The 148,000 square foot shopping centre underwent significant redevelopment in 2002, including completion of a 53,000 square foot Sobeys supermarket and a 16,000 square foot Shoppers Drug Mart, which opened in December and November of 2002, respectively. In addition, extensive facade renovations commenced in 2002 and will be completed by spring of 2003.

- In October, the Company acquired the 89,000 square foot Byron Village shopping centre, in London, Ontario for $11 million. The purchase was financed by a mortgage of $8.3 million at a rate of 7.1% with the remainder of the purchase price paid in cash. This shopping centre is anchored by an A&P supermarket, Pharma Plus, TD Bank, LCBO and Rogers Video.

- In two separate transactions in October and November, Midland Lawrence Plaza, in Toronto, Ontario was acquired. This 76,000 square foot shopping centre is undergoing a significant redevelopment including the repositioning of a new 40,000 square foot Price Chopper, which opened in November of 2002.

Properties acquired without permanent financing are in the process of redevelopment and management intends to complete redevelopment and secure permanent financing in 2003 on these centres.

Details regarding the Company's purchase of land adjacent to five of its centres are as follows:

- In July, the Company purchased a 12,000 square foot, fully leased strip plaza adjacent to Place Nelligan in Gatineau, Quebec for $0.9 million. This acquisition will also provide an additional access point for the existing centre.
- In August, the Company purchased a second land parcel adjacent to Wellington Corners in London, Ontario for $0.5 million. This strategic acquisition together with the 2001 acquisition provides flexibility for redevelopment and better visibility and access to the existing centre. In 2002, a new 14,000 square foot Shoppers Drug Mart lease was completed, with the store scheduled to open in 2003.

- In September, the Company purchased land adjacent to the Red Deer Village shopping centre, in Alberta, for $5.9 million. Leases for a new 43,000 Sobeys Garden Marketplace and a 47,000 square foot Canadian Tire have been signed. The construction of these stores is scheduled to be completed by the end of 2003.
- In November, land and a 5,000 square foot building adjacent to Place Bordeaux in Aylmer, Quebec were purchased for $0.3 million. The purchase of this property increases the accessibility of the existing plaza and provides greater flexibility for future expansion.

- In December, a 21,000 square foot retail strip adjacent to the Company's Towerhill Centre in Peterborough, Ontario was purchased for $2.6 million. This strategic acquisition provides flexibility for redevelopment and better visibility and access to the existing centre.

In September, the Company also acquired the land on which its Centre Domaine shopping centre is located, in Montreal, Quebec, for $3.5 million.

In October, at Sherwood Town Square in Sherwood Park, Alberta, the Company sold land and a 94,000 square foot store to Home Depot for $4.4 million and a gain of $0.1 million. Zellers, who paid a $1.6 million lease termination fee prior to the disposition of the building, previously paid rent on the unoccupied premises.

Development Activities

Management considers development, which it may do alone or with joint venture partners, to be a key part of the business, allowing the Company to better participate in growth markets and improve returns on its portfolio. 2002 was a busy year as four development projects came on line in Quebec and Ontario, and two sites were purchased in Quebec and Alberta for projects commencing in 2003.

- At Place Nelligan in Gatineau, Quebec, the construction of a new 41,000 square foot IGA and additional 4,500 square foot retail space was completed in March 2002.

- At Place Bordeaux in Aylmer, Quebec, the construction of a new 8,500 square foot Pharmaprix (Shoppers Drug Mart) was completed in March 2002.

- In April, two contiguous land sites for development totalling approximately eight acres located on Montee Paiement, near Highway 50, in Gatineau, Quebec were purchased for $2.1 million.

- In May, a 27.4 acre land site for development located in Calgary, Alberta was acquired through a joint venture in which the Company's ownership is 60%. To date, leases have been signed for a 43,000 square foot Sobeys Garden Marketplace and a 133,000 square foot Wal-Mart, which are scheduled to be constructed in 2003. The site has expansion potential for an additional 164,000 square feet of gross leasable area. A number of leases are under negotiation for additional retail use.

- Construction continues on Les Galeries de Lanaudiere in Lachenaie, Quebec. This centre, when completed, is expected to total approximately 260,000 square feet of gross leasable area. As at December 31, 2002, approximately 175,000 square feet of tenant space, including Sears, Future Shop, Business Depot, Winners, Addition-Elle, Globo Shoes, Pier 1 Imports, McDonald's and Danier, was occupied and an additional 3,500 square feet was committed for occupancy.

- During October, the Company opened a 54,000 square foot A&P grocery store, in addition to a Pizza Hut, Mr. Sub, Rogers Video and a Dollar Store, at the development project in Brampton, Ontario, in which the Company holds a 50% interest. In January of 2003, a 6,000 square foot Tim Hortons and Wendy's opened and leases for an additional 26,000 square feet have been signed including a Shoppers Drug Mart and a Royal Bank. The remainder of the project is scheduled to be completed by the summer of 2003, totalling approximately 120,000 square feet. During the year, the co-tenancy sold 20 acres of excess land for proceeds of approximately $8.7 million.

Redevelopment and Renovation

The status of the Company's projects under redevelopment or renovation is as follows:

- The Company completed the redevelopment of Northgate Centre in Edmonton, Alberta in 2002. Highlights of the program included the renovation of space with direct exterior access in the location of Safeway's former store and the renovation of the interior commercial retail unit food court and office areas.

- Renovation and expansion continues at Harwood Plaza in Ajax, Ontario. In 2001, the Food Basics (A&P) store was expanded and the Shoppers Drug Mart store was relocated and expanded. In 2002, 34,000 square feet was renovated or constructed for new tenants including Blockbuster, Tim Hortons, Subway, Fabricland, A Buck or Two and other smaller CRU tenants. The parking lot, landscaping and pylon signage were also upgraded in 2002. Additional new leases signed in 2002, with construction expected to be completed in 2003, include a 25,000 square foot Pitney Bowes office lease for occupancy in February 2003, a 29,000 square foot gym lease with an opening expected in the spring of 2003 and an 8,100 square foot lease with the Federal Government with occupancy expected in June 2003.

- At La Porte de Gatineau in Gatineau, Quebec, the existing Future Shop relocated into a new 26,000 square foot building, which opened in July of 2002. A furniture store opened in October in the former 14,000 square foot Future Shop premises.

- At Brantford Mall in Brantford, Ontario, construction has begun on a new 133,000 square foot Wal-Mart. Except for 20,000 square feet, the current Wal-Mart space will be demolished once the new store is open in April 2003. The 20,000 square feet retained, with leases currently under negotiation, will be converted to commercial retail unit ("CRU") space. Additional pad space will also be available for lease in the centre.

- At Parkway Centre in Peterborough, Ontario, construction has begun on 12,000 square feet of CRU space including a new 8,300 square foot Dollarama store. A 3,500 square foot Shoe Company store is also to be opened in the spring of 2003. During the year, construction was completed on a new 27,500 square foot Winners store that opened in September 2002.

- At Place Cite des Jeunes, in Hull, Quebec, the Company completed the expansion of the Metro grocery store from 21,000 square feet to 26,000 square feet in early December.

- At Plaza Delson in Delson, Quebec, the supermarket was expanded from a 45,000 square foot Maxi to a 65,000 square foot Loblaws in September.

- At Galeries Brien, in Repentigny, Quebec, the expansion of an IGA grocery store from 25,000 square feet to 42,000 square feet was completed in December.

- At both Centre commercial Van Horne and Centre commercial Wilderton, in Montreal, Quebec, expanded Pharmaprix drug stores were opened in early December. The Van Horne store has grown to 12,500 square feet, and the store at Wilderton increased to 14,700 square feet.

- At Leduc Towne Square in Edmonton, Alberta a 3,000 square foot pad and approximately 1,000 square feet of additional CRU space were built in order to facilitate the expansion, to be completed in the spring of 2003, of the Shoppers Drug Mart to 12,000 square feet.

- At West Lethbridge Towne Centre, in Lethbridge, Alberta, the construction of an additional 5,850 square feet of CRU space was completed in November of 2002.

- At the Delta Centre in Cambridge, Ontario, construction of a new 40,000 square foot Price Chopper is currently under way, and is scheduled to be completed in Q2 of 2003.

- At Fairview Mall in St. Catharines, Ontario, the construction of a new 12,000 square foot LCBO was completed, and the store opened in November of 2002.

In addition to the ongoing redevelopment program, the Company is also renovating facades at a number of its other centres. Facades were upgraded at Bridgeport Plaza, University Plaza, Centre commercial Van Horne and Plaza Delson. In 2003, the Company intends to upgrade facades at the following additional properties: Centre commercial Cote St. Luc, Centre Domaine, Place Fleury, Les Galeries de Repentigny and La Porte de Gatineau. Facades and other aspects of its centres are upgraded on an as needed basis in order to ensure the long-term competitiveness of the centres.

Leasing

Leasing activity in 2002 resulted in the completion of net new leasing totalling 245,000 square feet of space compared to 108,000 square feet in 2001. This net new leasing will generate additional minimum rent of approximately $4.6 million as compared to $1.7 million from 2001 net new leasing activities. In addition, lease renewals on 302,000 square feet were completed in 2002, as compared to 228,000 square feet of space in 2001. The 2002 renewals will generate annual minimum rent of $4.2 million, unchanged from the pre-renewal net annual rent. This compares to $3.5 million in minimum rent attributable to 2001 renewals. The occupancy level of the portfolio, including projects currently under redevelopment, was 92% of total gross leasable area as at December 31, 2002. Management expects that the completion of redevelopment and committed leasing will result in higher occupancy levels in 2003.

Equity One

Prior to September 2001, the Company owned 29 shopping centres in the United States through its wholly-owned U.S. subsidiary, Centrefund Realty (U.S.) Corporation ("CEFUS"). In September 2001, the Company completed the sale of CEFUS to Equity One, Inc., a self-administered and self-managed publicly traded U.S. real estate investment trust with a similar focus on neighbourhood and community shopping centres and an equity market cap at that time of approximately US$150 million. Concurrently, Equity One completed the acquisition of United Investors Realty Trust, a Texas based real estate investment trust. First Capital Realty became the largest single shareholder of Equity One, owning 10.5 million common shares of Equity One at September 2001.

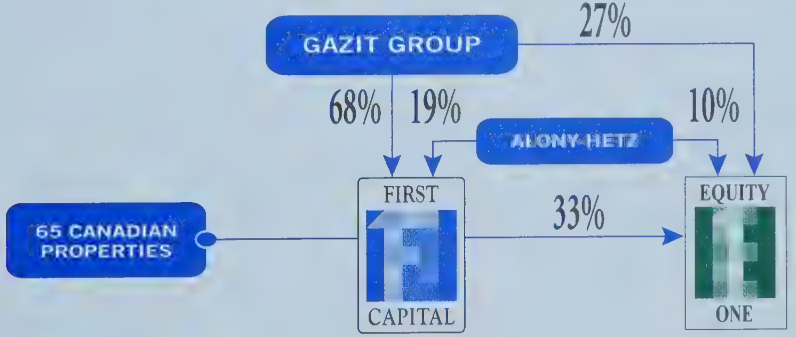

Equity One rings the opening bell at the New York Stock Exchange

The transaction with Equity One allowed the Company to better focus its resources and management's attention in Canada while still participating in the U.S. market, in a larger, better diversified portfolio. In management's view, from a real estate perspective, the Company exchanged a 100% ownership interest in 29 properties for a 36% interest in 82 properties. First Capital Realty's U.S. portfolio required an experienced local management team in order to grow and create value. Equity One has provided the appropriate focus on these properties and the combined operation has resulted in a greater realization of value. Further, First Capital Realty no longer has any direct obligation to fund the capital requirements, if any, of the U.S. portfolio. Subsequent to the transaction, First Capital Realty's wholly-owned U.S. subsidiaries obtained a US$70 million, five-year credit facility at LIBOR plus 150 basis points, secured against 10.5 million shares of Equity One.

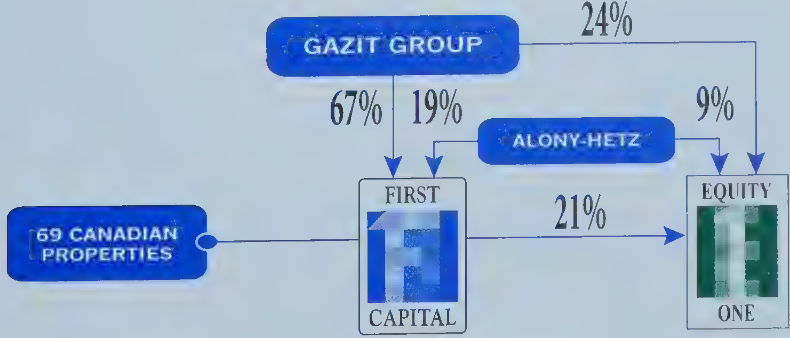
At December 31, 2002, Equity One had 88 properties totalling 8.5 million square feet and First Capital Realty owned 11.1 million common shares, or approximately 33% of Equity One's outstanding shares.

The Company's strategy in dealing with its U.S. investment has proved to be successful. On February 12, 2003, Equity One completed its acquisition of IRT Property Company and became one of the largest retail REITs in the southern United States. Equity One's equity market capitalization grew to approximately US$850 million and the number of properties owned more than doubled to 180, with a total of approximately 18.4 million square feet. Equity One funded 56.6% of this transaction with shares and 43.4% in cash. Equity One funded a portion of the cash consideration through the private placement of 6.9 million shares of Equity One common stock to its existing, affiliated investors at a price of US$13.50 per share. First Capital Realty purchased 1,036,650 of the 6.9 million common shares, which was funded on closing 50% through new bank financing secured against the shares and the remainder from existing lines of credit.

At December 31, 2002, before the closing of the IRT transaction, the Company's ownership structure was as follows:



At February 14, 2003, after the closing of the IRT transaction, the Company's ownership structure was as follows:



RESULTS OF OPERATIONS

Funds from Operations

It is management's view that, for public real estate companies, funds from operations is a commonly accepted and meaningful indicator of financial performance. Funds from operations does not recognize amortization as an operating expense or recognize future income taxes until these are actually paid.

(in thousands of dollars)		2002		2001
Funds from operations before recovery of previous management's incentive and other fees	$	45,241	$	37,905
Recovery of previous management's incentive and other fees		-		8,538
Funds from operations	$	45,241	$	46,443

In 2001, funds from operations included an $8.5 million recovery of previous management's incentive and other fees. The Company believes that the recovery of previous management's incentive and other fees, described in note 14 to the consolidated financial statements, should be considered separately, as a non-recurring item, when evaluating the Company's financial performance. Excluding the effect of the recovery of previous management's incentive and other fees, funds from operations grew 19% to $45.2 million in 2002. This was primarily due to the effect of acquisitions made in the current and prior year.

Funds from operations on a diluted basis were $1.37 per common share for the year ended December 31, 2002, compared to $1.57 in the prior year.

(in thousands of dollars)		2002		2001
Diluted FFO per common share before recovery of previous management's incentive and other fees	$	1.37	$	1.31
Impact of recovery of previous management's incentive and other fees		-		0.26
Diluted FFO per common share	$	1.37	$	1.57

Excluding the effect of the recovery of previous management's incentive and other fees, funds from operations per share in 2002 were $1.37 diluted compared to $1.31 diluted in 2001. The increase in diluted FFO per share was again primarily due to the effect of acquisitions made in 2001 and 2002. This was partially offset by the exclusion of unremitted earnings from Equity One of $5.3 million in 2002 compared to $1.3 million in 2001, a difference of approximately $0.11 per diluted share.

Net Earnings

(in thousands of dollars)		2002		2001
Net earnings before the following	$	27,098	$	22,047
Recovery of prior management's incentive and other fees		-		8,538
Gain on disposition of land and shopping centres		591		8,070
Dilution gain on investment in Equity One, Inc.		3,290		-
Income tax on above items		(1,345)		(7,160)
Net earnings	$	29,634	$	31,495

Net earnings for the year ended December 31, 2002 were $29.6 million, or 74 cents per share basic and diluted, compared to $31.5 million, or $1.09 per common share basic and $1.04 diluted, in the prior year period. Three items significantly impacted net earnings. In 2001, net earnings were increased by the $8.5 million recovery of previous management's incentive and other fees, discussed above, and gains on disposition of land and shopping centres, which were $7.5 million higher than

in 2002. Net earnings were increased in 2002 by the $3.3 million dilution gain on the Company's investment in Equity One. Excluding these items and the related tax impact, net earnings increased by approximately 23% from $22.0 million to $27.1 million. This was primarily due to the net effect of the 18 properties acquired in the year and completed development coming on line.

Rental Income - Canada

(in thousands of dollars)		2002		2001
Rental income (net of recoveries and operating expenses)	$	74,594	$	58,735
Percent rent		1,853		1,976
Lease termination fees		1,870		2,052
Total rental income - Canada	$	78,317	$	62,763

In Canada, net rental income (gross rental income net of property operating costs) increased by $15.5 million to $78.3 million. $11.0 million of the increase in net rental income is a result of the 2002 acquisitions, $2.4 million is the incremental effect of the 2001 acquisitions being on line, $0.9 million of the increase is from completed development projects, and $1.2 million is due to same property growth.

The Company's business includes the redevelopment and remerchandising of retail space. As a result, the Company, in the normal course of operations, generates income from payments received from tenants as compensation for the cancellation of leases. In 2002, the Company received Canadian net lease cancellation payments of $1.9 million as compared to $2.1 million in 2001.

Rental Income – United States

There was no net rental income contribution from the United States during 2002, compared to $28.2 million in 2001, due to the sale of the Company's portfolio of U.S. shopping centres to Equity One in September 2001. Thereafter, income from the Company's investment in Equity One was recorded under the caption Equity Income from Equity One, Inc.

Equity Income from Equity One, Inc.

The Company's share of Equity One's net earnings, adjusted to Canadian GAAP, including a provision for future tax on the undistributed earnings of Equity One, is recorded as Equity Income from Equity One, Inc. The $21.6 million recorded in 2002 includes one-time gains of $3.9 million relating to the disposition of real estate and litigation settlement costs of $1.1 million. In 2001, the $4.1 million in equity income covers the 3.5 month period after the acquisition of Equity One shares.

Interest, Other Income and Gains on Sale

Interest and other income comprises the following:

(in thousands of dollars)		2002		2001
Interest and other income	$	1,998	$	4,571
Gain (loss) on disposition of marketable securities		(138)		1,451
Dividend income		156		185
		2,016		6,207
Gain on disposition of land and shopping centres		591		8,070
Total	$	2,607	$	14,277

The Company earns interest income from funds invested in three types of investments: short-term bankers' acceptances, advances made to the Company's development partners, and an investment in a portfolio of short-term mortgages and other receivables including a note due from a municipality. The decrease in interest and other income in 2002 results from reduced

income from cash balances and advances to its development partner compared to 2001 due to acquisition of the Company's joint venture partner's interest in five shopping centres and two sites in 2001.

The Company holds marketable securities from time to time. In 2001, sale of such securities resulted in gains of $1.5 million. In 2002, a net loss on sale of securities of $0.1 million was recorded. At December 31, 2002, the fair value of marketable securities approximated their book value.

The gains on disposition of land and shopping centres for the year ended December 31, 2002 arise from the sale of land parcels adjacent to McLaughlin Corners in Brampton, Ontario and the sale of a 94,000 square foot building and related parking at Sherwood Towne Square in Sherwood Park, Alberta. The gains on disposition in the year ended December 31, 2001 arose from the sale of the Harbour Financial office building in Florida.

Interest Expense on Mortgages and Credit Facilities - Canada

Canadian interest expense on mortgages and credit facilities comprises the following:

(in thousands of dollars)		2002		2001
Interest expensed	$	29,104	$	26,216
Interest capitalized		1,796		1,468
Total Canadian mortgage and credit facilities interest	$	30,900	$	27,684

The increase of $2.9 million in Canadian interest on mortgages and credit facilities expensed in 2002 over 2001 substantially results from increased borrowing by the Company to fund acquisitions. In addition to the $114.4 million net increase in Canadian borrowing during 2002, the Company incurred a full year's interest on the mortgages financed in 2001. Partially offsetting this was a decrease in the weighted average interest rate on the Company's Canadian fixed rate borrowings, from 7.6% at December 31, 2001 to 7.3% at December 31, 2002.

Interest Expense on Mortgages and Credit Facilities – United States

United States interest expense on mortgages and credit facilities comprises the following:

(in thousands of dollars)		2002		2001
Interest expensed	$	4,350	$	15,805
Interest capitalized		-		669
Total United States mortgage and credit facilities interest	$	4,350	$	16,474

The reduction in interest incurred in 2002 is due primarily to the sale of the Company's U.S. portfolio to Equity One in September 2001.

Corporate Expenses

Corporate expenses comprise the following:

(in thousands of dollars)		2002		2001
Salaries, wages and benefits	$	3,475	$	2,426
U.S. asset management fees		-		642
Capital taxes, net of recoveries from tenants		835		1,024
Capitalized corporate expenses		(257)		-
Other general and administrative costs		2,780		2,889
Total	$	6,833	$	6,981

Salary, wages and benefits incurred in 2002 exceeded the level incurred in 2001 by $1.0 million as a result of the increased number of employees required for increasing acquisition and development activity.

Under the terms of an asset management agreement effective August 15, 2000, a wholly-owned subsidiary of Equity One, Inc. was retained by the Company as an asset manager of the Company's Texas portfolio until it was sold to Equity One on September 20, 2001. The annualized asset management fee was 0.4% of the book value of assets managed. Equity One earned $0.6 million in fiscal 2001 under the terms of the agreement.

Amortization

Canadian asset amortization for the year ended December 31, 2002 was $9.9 million, which was $2.0 million higher than the prior year. This primarily resulted from new acquisitions in 2002, development and redevelopment of shopping centres coming on line, and use of the sinking fund method of depreciation in which amortization expense on buildings increases by 5% per year.

U.S asset amortization for the year ended December 31, 2002, at $0.1 million, was $5.1 million lower than the prior year. The main factor was the sale of the Company's U.S. shopping centre assets in September 2001 to Equity One. Amortization in 2002 relates to financing fees.

Interest on Debentures

Interest on the Company's outstanding debentures comprises the following:

(in thousands of dollars)		2002		2001
Interest expensed on convertible debentures	$	4,438	$	5,149
Interest expensed on debentures		2,734		2,859
Total debenture interest expensed		7,172		8,008
Interest on equity component of convertible debentures		24,395		21,663
Total interest paid		31,567		29,671
Less: interest paid in common shares of the Company		(14,207)		-
Cash interest paid	$	17,360	$	29,671

Interest expensed on convertible debentures declined in 2002 as a result of the reduction in the average liability component of the Company's outstanding convertible debentures. The interest on the equity component of convertible debentures has increased as a result of the issue, in 2002, of $61 million of Series D (7.25%) convertible debentures.

Recovery of Previous Management's Incentive and Other Fees

On August 17, 2001, the Company settled the Fair Value Incentive Amount dispute with Dawsco Realty Advisory Corp. ("the Advisor"), a private Ontario corporation controlled by two of the Company's former directors, one of whom was the Chairman, President and Chief Executive Officer of the Company until August 18, 2000. The dispute was in respect of incentive and other fees that the Advisor claimed it was entitled to under the Advisory Agreement that was terminated on August 18, 2000. Former management of the Company, which included the Company's former Chairman, President and Chief Executive Officer, who also controlled the Advisor, calculated and accrued the Fair Value Incentive Amount to be $21.35 million. This amount was recorded after an offer by the Gazit Group to acquire a controlling interest in the Company in June 2000 and $9.2 million was advanced to the Advisor. Current management of the Company disputed the calculation of the Fair Value Incentive Amount and other amounts, including amounts that had been advanced.

The Fair Value Incentive Amount was settled at the $9.2 million amount already advanced. A recovery of expenses, before income taxes, of approximately $8.5 million (approximately $5.4 million net of income taxes) was recorded in 2001.

Income and Other Taxes

Current taxes comprise the following:

(in thousands of dollars)		2002		2001
Canadian federal large corporations tax	$	1,850	$	1,600
United States current income and withholding taxes		3,424		1,962
Total	$	5,274	$	3,562

The increase in the Canadian federal large corporations tax results from the increase in the size of the Company's capital base.

The United States current income and withholding taxes of $3.4 million arises from income earned by the Company's U.S. subsidiaries. No U.S. tax losses are available to offset current income tax in the United States.

CAPITAL STRUCTURE

The real estate business is capital-intensive by nature. First Capital Realty focuses on its capital structure to maintain stability and finance growth. In the real estate industry, financial leverage tends to generate competitive rates of return on equity. First Capital Realty's blend of debt and equity in its capital base minimizes income taxes and generates acceptable equity returns while taking into account the long-term prospects of the Company.

Mortgages Payable and Credit Facilities

As at December 31, 2002 mortgages and credit facilities payable represented 49.9% of the total book value of the Company's assets, excluding future income tax assets, as compared to 47.5% in 2001. This increase was primarily due to the purchase of 18 shopping centres during the year for a total purchase price of $162.1 million, which was financed with long-term debt, equity, drawdowns of the Company's credit facilities and cash.

At December 31, 2002, 75.0% of the outstanding mortgage and credit facility liabilities bore interest at fixed interest rates, compared to 81.6% in 2001. Of the $146.6 million in floating rate financing, $93.0 million represents financing at LIBOR plus 150 basis points secured against 10.5 million shares of Equity One.

In Canada, the Company had fixed rate mortgages outstanding as at December 31, 2002 in the aggregate amount of $424.7 million bearing interest at an average interest rate of 7.3% as compared to $359.6 million in outstanding mortgages with an average interest rate of 7.6% at the end of 2001. The increase in the outstanding balance is the net result of $25.1 million in repayments and $90.2 million in net new financing, primarily for acquisitions and redevelopment.

The Company's $209 million investment in Equity One is financed, in part, by U.S.-dollar-denominated credit facilities totalling Cdn $105.1 million. The debt service requirements of these credit facilities are funded by the cash flow generated by the dividend from Equity One. This reduces the Company's exposure to fluctuations in foreign currency exchange rates.

The increase from $96.4 million (US$60.5 million) to $108.8 million (US$68.9 million) in the outstanding balance of U.S. credit facilities primarily resulted from a US$10 million increase in the credit facility secured against the 10.5 million Equity One shares during the year, net of repayments.

The Company also attempts to manage its long-term debt by staggering maturity dates in order to mitigate against short-term volatility in the debt markets. At December 31, 2002, the Company had mortgages and credit facilities aggregating $86.2 million coming due in 2003, of which $22.2 million were fixed rate mortgages at an average interest rate of 6% and $10.4 million represented amortization of principal balances during the year. The remaining $53.6 million of floating rate mortgages and credit facilities maturing in 2003 are being used to finance development and redevelopment activities. As these projects are completed, Management intends to arrange long-term permanent financing against these projects.

Debentures Payable

As a result of the offer made by the Company in November 2002 to purchase all of its outstanding 7.5% debentures in exchange for 7.25% convertible debentures, the Company cancelled $22.1 million of its 7.5% debentures and in exchange, issued $27.6 million of its Series D 7.25% convertible debentures due on June 30, 2008. As a result, $15.2 million of 7.5% debentures were outstanding at December 31, 2002, compared to $37.9 million in the previous year. Throughout 2002, the Company also purchased and cancelled $0.6 million of its 7.5% debentures in the open market.

The 7.5% debentures are direct subordinated obligations of the Company that are secured by a floating charge on four of the Company's shopping centres and mature on December 1, 2003.

Convertible Debentures

Long-term convertible debentures have been issued by First Capital Realty as a tax-effective method of financing a portion of the equity component of its shopping centre portfolio expansion.

Accordingly, a large portion of the Company's capital is in the form of convertible debentures that mature between 2006 and 2008. The debentures require interest payable semi-annually at rates ranging from 7% to 8.5%.

After the 3.33% adjustment noted under "Issuance of Warrants" below, holders of these debentures have the right to convert them into an aggregate total of 20,791,332 common shares at share prices that range from $14.98 to $24.40 per share on or before maturity.

If the holders of the debentures do not exercise their conversion rights, the Company has the option of repaying the debentures on maturity by way of the issue of common shares at 95% of a weighted average trading price of the Company's common stock.

The 7.0% and 7.25% convertible debenture series also provide the Company with the option, subject to regulatory approval, to pay semi-annual interest through the issue of common stock.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants relating to the presentation and disclosure of financial instruments, each series of the Company's convertible debentures is presented in its debt and equity component parts, measured at its respective issue dates, as more thoroughly detailed in note 1(g) to the Company's 2002 consolidated financial statements. The details of the Company's outstanding convertible debentures are summarized in note 10 to the Company's 2002 consolidated financial statements.

Since mid-1996, the Company has raised $421 million through the issue of four series of convertible debentures. As a result, as detailed under note 16 of the Company's consolidated financial statements, there are a substantial number of common shares attached to the conversion rights of the Company's outstanding convertible debentures. Accordingly, it is important when assessing the financial performance of the Company to review the diluted per share data.

Shareholders' Equity

Shareholders' equity amounted to $507.8 million as at December 31, 2002, as compared to $409.6 million at the end of 2001. Shareholders' equity as at December 31, 2002 included $371.3 million (2001 – $309.7 million) that represents the equity component of convertible debentures as discussed above.

As at December 31, 2002, the Company had 19,142,717 (2001 – 15,377,024) issued and outstanding common shares with a stated capital of $200.2 million (2001 – $154.5 million). During fiscal 2002, a total of 3,765,693 common shares were issued adding $45.7 million to shareholders' equity: 673,630 shares in lieu of cash on acquisitions of real property; 1,209,657 shares for three interest payments on the Series C (7.0%) and D (7.25%) convertible debentures; 1,873,406 shares from the exercise of share purchase warrants; and 9,000 shares to directors issued in lieu of cash compensation. In 2001, 38 common shares were issued in connection with the conversion of convertible debentures.

Shareholders' equity as at December 31, 2002 and 2001 includes a net cumulative, unrealized currency translation adjustment in the amount of $11.7 million (2001 – $12.7 million). This amount represents the difference between the U.S. dollar exchange rate in effect at the date of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate as at December 31, 2002 and 2001, respectively. The U.S. dollar exchange rate in effect at December 31, 2002 decreased to US$1.00 = Cdn$1.58 from US$1.00 = Cdn$1.59 as at December 31, 2001.

Shareholders' equity as at December 31, 2002 includes a deficit of $85.8 million (2001 – $69.3 million). During the year there was a $10.2 million charge to the deficit as a result of issuing rights to existing shareholders for the share purchase warrants. The Company has historically paid dividends, consistent with general industry practice, based on cash flow from operations as opposed to net income.

Share Purchase Warrants

On April 15, 2002 the Company issued 12,301,619 common share purchase warrants entitling holders to acquire common shares at $11.80 per share. The warrants are exercisable during a three-month period commencing on June 1 and ending on August 31 in each year until 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances. The issuance of the warrants resulted in a 3.33% decrease in the exercise price of the Company's convertible debentures and options.

The warrants were issued under a rights offering in which the maximum number of warrants available under the rights offering were subscribed by holders of common shares. The warrants are listed for trading on the Toronto Stock Exchange under the ticker symbol FCR.WT.

The warrants represent an additional means of potentially increasing the Company's capital base over time without incurring significant issue costs. During the year 1,873,406 share purchase warrants were exercised for proceeds of $22.1 million. As at December 31, 2002, there were 10,428,213 share purchase warrants outstanding, which would represent additional equity of $123.1 million if exercised.

Liquidity

Funds from operations totalled $45.2 million (2001 before previous management's incentive and other fees - $37.9 million). This amount was available to fund payments on the equity portion of convertible debentures totalling $10.2 million (net of $14.2 million paid in common shares of the Company), pay regular debt amortization of $10.3 million and dividends of $18.7 million. The resulting net generation of cash of $6.0 million, together with net mortgage refinancing, interim financing and the Company's credit facilities, including the US$70 million facility secured against the 10.5 million common shares of Equity One, were used to fund the acquisition, expansion and redevelopment of shopping centres, the acquisition and development of land, tenant inducements and advances to the Company's development partners.

Cash and cash equivalents were $0.4 million at December 31, 2002 (2001 – $44.0 million). The Company also has undrawn credit facilities totalling $23.8 million. In addition, the Company had eight unlevered properties with a book value of approximately $67.9 million. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term.

Financing of unlevered projects and refinancing of existing projects in the coming year is expected to add available cash. The actual level of future borrowings will be determined based upon the level of liquidity required, the prevailing interest rate and debt market conditions.

Dividends

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it commenced operations in 1994. Dividends are set taking into consideration the Company's capital requirements and its alternative sources of capital.

In 2002, the Company paid dividends of $1.09 per common share (2001 - $0.99 per common share). After adjusting for the Company's share of Equity One's unremitted funds from operations and the recovery of previous management's incentive and other fees in 2001, these dividends represented a payout ratio of 72% in 2002 compared to 73% in 2001. The Company is currently paying a quarterly dividend of $0.28 per common share. The annual dividend has grown at a compound rate of approximately 5% since the Company commenced operations in March 1994.

RISK MANAGEMENT

First Capital Realty is exposed to numerous business risks in the normal course of its business that can impact both short and long-term performance. It is the responsibility of management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk First Capital Realty encounters in conducting its business and the manner in which it takes actions to minimize their impact are outlined below.

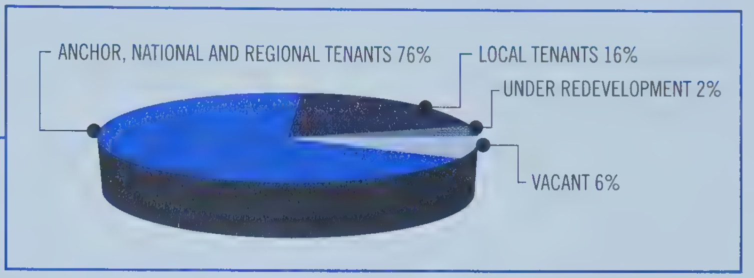
Operating Risk

The Company's most significant operating risk is the potential for reductions in revenue resulting from an inability to maintain acceptable levels of occupancy and stable or increasing rental rates. An anchor tenant or other tenant may experience a downturn in its business that may weaken its financial condition. As a result, these tenants may default in performing their obligations under their leases.

First Capital Realty focuses on securing retail tenants that provide consumers with basic necessities and amenities as distinct from those that cater to more discretionary fashion demands. Management believes that this makes the Company's revenues less susceptible to general economic swings as, even during economic downturns, consumers continue to purchase necessities such as groceries and basic clothing.

The financial success of First Capital Realty's tenants, operating in well-located, properly maintained and successfully merchandised and positioned properties, will minimize the impact of this risk on the Company. First Capital Realty seeks out tenants that are well capitalized. First Capital Realty's lease arrangements with some of its tenants provide for income protection and growth through rent escalations and through a participation in the tenants' sales success in the form of percentage rents which are payable in addition to minimum rents.

Certain significant expenditures involved in real property investments, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities which must be met regardless of whether the property is producing any income. First Capital Realty minimizes this risk in that its leases generally requires tenants to be responsible for the payment of realty taxes and the costs of operating and managing the property within which they are located. As such, these leases are considered to be net leases to the Company.



Nature of Tenancies

The Company's properties generate income through rent payments made by tenants of its properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Company than the existing lease. The Company could be adversely affected, in particular, if any major tenant ceases to be a tenant and cannot be replaced on similar or better terms.

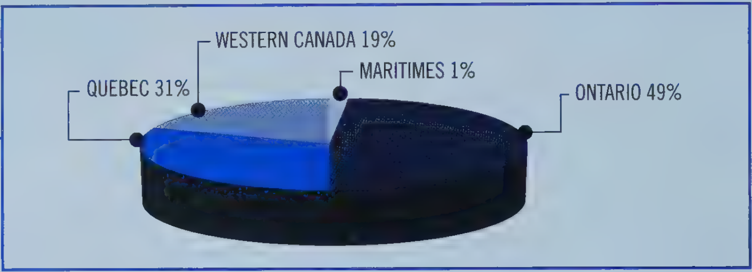
First Capital Realty seeks to mitigate this risk by leasing a large portion of the gross leasable area of each of its properties on a long-term basis to successful anchor tenants such as food supermarkets, discount department stores and drug stores. These tenants, in addition to creating a stable source of long-term rental income, generate customer traffic for the benefit of smaller retail and service tenants. The nature and relationship of the anchors to small shop tenants and the balance between national and local retailers is a key ingredient in establishing stable, sustainable revenue from each of First Capital Realty's properties. As the pie chart above illustrates, approximately 76% of First Capital Realty's total gross leasable area is occupied by anchor, national and regional retail tenants.

Lease Maturities

First Capital Realty's lease maturities are staggered on a property-by-property basis, which helps to generate a more stable flow of revenue and mitigate risks related to changing market conditions. Lease expirations in each of the next five years range from 4.8% to 9.3% of the total leased area in the portfolio.

Geographic Diversification

As the chart below illustrates, the existing First Capital Realty portfolio is concentrated in Ontario, Quebec and Alberta. As a result, economic and real estate conditions in these regions will significantly affect the Company's revenues and the value of its properties. There is a trade-off between operational efficiencies and market influence that can be achieved by geographic concentration, and vulnerability to local market influences that can be avoided by geographic diversification. First Capital Realty will seek to add properties in areas where it currently owns shopping centres to take advantage of local market knowledge, anchor tenant relationships and synergies in both management and leasing. The Company does this while taking into account local market conditions that can affect occupancy rates and rental income levels. The geographic diversification by leasable area is illustrated as follows:



Financial Risk

The Company has outstanding indebtedness in the form of mortgages, credit facilities, debentures and convertible debentures and, as such, is subject to the risks normally associated with debt financing, including the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest. In particular, the aggregate principal amount of the 7.0% debentures due and payable in 2008 and 7.25% debentures due and payable in 2008 is $261 million.

There is a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. However, the Company may elect to repay indebtedness through refinancings or through the issuance of equity securities. In particular, under the terms of the Company's convertible debentures, the Company is permitted to elect to satisfy the principal amount due on redemption or maturity of those debentures through the issuance of common shares. The Company also has the option to satisfy interest payments on its 7.0% Debentures and 7.25% Debentures in the same manner.

Upon the expiry of the term of the financing on any particular property owned by the Company, refinancing on a conventional mortgage loan basis may not be available in the amount required or may be available only on terms less favourable to the Company than the existing financing. Also, a credit disruption in the capital markets could have an adverse impact on the Company's ability to meet its obligations and grow its business.

To limit the Company's exposure to overall reductions in credit availability in poor economic times, the Company attempts to stagger its long-term debt maturities and maintain an adequate level of cash or undrawn credit capacity. First Capital Realty also attempts to arrange stand-alone, limited recourse project financing to further mitigate the potential risk of a lack of replacement financing. In addition, the Company limits the amount of floating rate debt it will incur at any one time in order to insulate itself from interest rate volatility. The Company also strives to maintain and improve its access to capital markets.

Given that the Company may not have sufficient access borrowings denominated in U.S. dollars, the Company is subject to fluctuations in currency exchange rates or regulations, or the costs of currency conversion which may, from time to time, adversely impact its financial position and results of operations. The Company's U.S. investment is self-sustaining and financed in part by U.S.-dollar-denominated credit facilities, which are serviced by the cash flow generated by the dividends from its U.S. investment. This reduces the Company's exposure to fluctuations in foreign currency exchange rates. The Company has not traditionally hedged its net U.S. dollar asset position. The book value of U.S. dollar assets, net of U.S.-dollar-denominated debt, is approximately US$60 million. A 1% strengthening of the Canadian dollar against the U.S. dollar would result in a $1.0 million decrease in the net book value of the Company's net assets in the United States and a decrease in cash flow of approximately $0.1 million.

Interest rates effect the profitability of commercial properties as interest paid on mortgages secured by commercial properties represents a significant cost in the ownership of properties. First Capital Realty limits its exposure to fluctuating interest rates by obtaining a combination of long-term fixed-rate and variable rate financing, when available, and attempting to avoid concentrations of debt maturities.

Acquisition, Expansion and Development Risk

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and energy of its management team. First Capital Realty will continue to seek out acquisition, expansion and selective development opportunities that offer acceptable risk-adjusted rates of return. The Company's acquisition criteria are stringent and its due diligence procedures are rigorous. First Capital Realty uses a team of trained professionals, including lawyers, engineers, accountants and architects, to thoroughly analyze each proposed acquisition prior to its completion. The most senior officers of the Company's management team complete no acquisition without a detailed analysis and a personal inspection. First Capital Realty believes that acquisitions should be undertaken only if there is the potential for long-term growth in operating cash flow. Distressed properties are acquired only if the Company is satisfied that the property can become economically viable in a short, predictable period of time.

Integral to this strategy is the Company's ability to identify suitable acquisition candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not in the future be successful in identifying suitable real estate assets or other businesses that meet its acquisition criteria or completing acquisitions or investments on satisfactory terms. Failures in identifying or completing acquisitions could reduce the number of acquisitions the Company is able to make and may slow its growth.

In addition, the Company competes for suitable real property investments with individuals, corporations, real estate investment companies, trusts and similar vehicles, and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future real property investments similar to those desired by the Company. Many of these investors may also have financial resources which are comparable or greater than those of the Company. An increase in the availability of investment funds, and an increase in interest in real property investments, would tend to increase competition for real property investments thereby increasing purchase prices and reducing the yield thereon.

Further, the Company's development commitments are subject to those risks usually attributable to construction projects, which include (i) construction or other unforeseeable delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; and (iv) increase in interest rates during the life of the development.

Environmental Risk

Laws and policies relating to the protection of the environment have become increasingly important in recent years. Under various federal and provincial laws, the Company as an owner, and potentially as a person in control or management of real property, could become liable for costs of investigation, remediation and monitoring of certain contaminants, hazardous or toxic substances present at or released from its properties. The failure to address such matters, if any, may adversely affect the ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims, including proceedings by government regulators or third party lawsuits, against the owner of the property.

Shopping centres generally pose minimal environmental risk as very few tenants manufacture, process or store substances that would be considered environmentally unsafe. The major exceptions to this general rule can be gas stations situated on out-parcels adjacent to shopping centre properties and some dry cleaning establishments. The primary responsibility for any environmental remediation rests with the party responsible for creating the contamination, although the Company may also be liable. First Capital Realty maintains a program of periodically reviewing and testing its properties to determine if environmental problems exist and includes, as a standard covenant in its leases, a prohibition against environmentally unsound activities. The Company undertakes a professionally conducted environmental audit before it completes the acquisition of any property in order to help mitigate environmental risk.

Economic Conditions

The economic conditions in the markets in which the Company operates can have a significant impact on the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants. Management believes that First Capital Realty's shopping centres are generally less susceptible to economic downturns, as they cater to the basic needs of the retail customer by having food supermarkets, drug stores, financial services, discount department stores and promotional retailers as tenants. In addition, the impact of economic conditions on the overall First Capital Realty portfolio has been mitigated through the long-term nature of its existing leases and through geographic diversification.

Effects of Inflation

Inflation has remained relatively low since First Capital Realty commenced operations in March 1994. As a result, inflation has had a minimal impact on the Company's operating performance to date. Nevertheless, most of First Capital Realty's long-term leases contain provisions designed to mitigate the adverse impact of inflation. These provisions include a pass-through of operating costs, including realty taxes and most management expenses, which insulates the Company from inflationary price increases. In addition, some leases include clauses that allow the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise. Many of the Company's long-term leases include rent escalation clauses, which increase rental rates over the term of the lease at either pre-negotiated levels or levels determined by reference to increases in the Consumer Price Index. Many of the Company's non-anchor leases are for terms of five years or less, providing the Company with the opportunity to achieve rent increases on renewal or when re-renting the space.

Foreign Equity Investments

The Company holds a significant equity investment in Equity One, and may acquire investments in other U.S. REITs or real estate investment vehicles from time to time. The value of the Company's investments of this nature is subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers of the equity securities held by the Company may become impaired or that the general condition of the stock market may deteriorate. They are also subject to risks associated with real property ownership which are similar to those described for the Company itself. Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic and banking crises.

General Uninsured Losses

The Company carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risk (generally of a catastrophic nature such as war, terrorist acts or environmental contamination) which may be either uninsurable, in whole or in part, or, in the opinion of management, not economically insurable. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profit and cash flows from, one or more of its properties, and the Company would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report, including Management's Discussion and Analysis contained herein, contains forward-looking statements relating to First Capital Realty's operations and the environment in which it operates that are based on First Capital Realty's expectations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. First Capital Realty undertakes no obligations to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.

MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with generally accepted accounting principles appropriate for the real estate industry in Canada.

The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 6, 2003.

Management is also responsible for the maintenance of financial and operating systems, which include effective controls to provide reasonable assurance that the Company's assets are safeguarded and that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities through its Audit Committee whose members are not involved in day-to-day operations of the Company. Each quarter the Audit Committee meets with management and, as necessary, with the independent auditors, Deloitte & Touche LLP, to satisfy itself that management's responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.

Dori J. Segal
President and Chief Executive Officer

Frank Bucys, C.A.
Chief Financial Officer

2002 CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of First Capital Realty Inc.

We have audited the consolidated balance sheets of First Capital Realty Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations, deficit, funds from operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Toronto, Ontario
March 6, 2003

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001 (In Thousands of Dollars)

	2002	2001
ASSETS		
Shopping centres (note 4)	$ 875,617	$ 661,476
Land and shopping centres under development and redevelopment (note 5)	51,555	39,005
Investment in Equity One, Inc. (note 6)	208,972	190,774
Cash and cash equivalents (note 9(b))	365	43,951
Amounts receivable (note 7)	21,379	17,861
Other assets (note 8)	18,255	16,124
Future income tax assets (note 15)	13,561	19,348
	$ 1,189,704	$ 988,539
LIABILITIES		
Mortgages payable and credit facilities (note 9)	$ 587,083	$ 460,356
Accounts payable and accrued liabilities	38,356	31,350
Convertible debentures payable (note 10)	41,272	49,396
Debentures payable (note 11)	15,237	37,866
	681,948	578,968
SHAREHOLDERS' EQUITY (note 12)	507,756	409,571
	$ 1,189,704	$ 988,539

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

Chaim Katzman
Director

Dori J. Segal
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2002 and 2001 (In Thousands of Dollars Except Per Share Amounts)

	2002	2001
Canadian gross rental income	$ 125,635	$ 97,866
Canadian property operating costs	47,318	35,103
Canadian rental income	78,317	62,763
United States gross rental income	-	42,814
United States property operating costs	-	14,581
United States rental income	-	28,233
Equity income from Equity One, Inc. (note 6)	21,606	4,080
Interest and other income	2,016	6,207
Interest expense (note 13)	40,626	50,029
Corporate expenses	6,833	6,981
Operating income before the following items	54,480	44,273
Amortization	9,931	13,096
Recovery of previous management's incentive and other fees (note 14)	-	8,538
Operating income	44,549	39,715
Gain on disposition of land and shopping centres	591	8,070
Dilution gain on investment in Equity One, Inc. (note 6)	3,290	-
Earnings before income and other taxes	48,430	47,785
Income and other taxes (note 15):		
Current	5,274	3,562
Future	13,522	12,728
	18,796	16,290
Net earnings for the year	$ 29,634	$ 31,495
Net earnings per common share (note 16)		
Basic	$ 0.74	$ 1.09
Diluted	$ 0.74	$ 1.04

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF DEFICIT

Years Ended December 31, 2002 and 2001 (In Thousands of Dollars)

	2002	2001
Deficit, beginning of the year	$ (69,324)	$ (70,921)
Net earnings for the year	29,634	31,495
Interest and accretion on equity component of convertible debentures (net of tax of $10,632; 2001 - $9,532)	(17,159)	(14,675)
Issuance of rights to acquire warrants (note 12(b))	(10,210)	-
Dividends	(18,698)	(15,223)
Deficit, end of the year	$ (85,757)	$ (69,324)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF FUNDS FROM OPERATIONS

Years Ended December 31, 2002 and 2001 (In Thousands of Dollars)

	2002	2001
Net earnings for the year	$ 29,634	$ 31,495
Add (deduct):		
Amortization	8,859	11,340
Loss (gain) on disposition of marketable securities	138	(1,451)
Gain on disposition of land and shopping centres	(591)	(8,070)
Equity income from Equity One, Inc.	(21,606)	(4,080)
Dividend income from Equity One, Inc.	18,575	4,481
Dilution gain on investment in Equity One, Inc.	(3,290)	-
Future income taxes	13,522	12,728
Funds from operations	$ 45,241	$ 46,443

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001 (In Thousands of Dollars)

	2002	2001
OPERATING ACTIVITIES		
Funds from operations	$ 45,241	$ 46,443
Net change in non-cash operating items	(1,030)	(14,071)
Cash provided by operating activities	44,211	32,372
INVESTING ACTIVITIES		
Acquisition of shopping centres	(105,502)	(52,306)
Expansion and redevelopment of shopping centres	(55,291)	(40,047)
Proceeds on disposition of land and shopping centres	8,770	34,960
Acquisition and development of land	(26,086)	(14,822)
Purchase of common shares of Equity One, Inc.	(13,209)	-
Equity One, Inc. transaction (note 6)	-	(17,417)
Acquisition of First Capital Inc. (note 3)	1,657	-
Advances to development partners	(936)	(1,220)
Investment in mortgages, net	-	1,834
Investment in marketable securities	(5,551)	(3,987)
Proceeds on disposition of marketable securities	6,966	18,394
Cash used in investing activities	(189,182)	(74,611)
FINANCING ACTIVITIES		
Proceeds of mortgage financings and credit facilities	128,890	256,346
Principal repayments of mortgages payable	(25,097)	(168,750)
Issuance of convertible debentures	5,000	-
Exercise of share purchase warrants (note 12(b))	22,106	-
Debentures purchased and cancelled	(553)	(300)
Payments on convertible debentures, net of interest expensed	(10,188)	(21,663)
Dividends	(18,698)	(15,223)
Cash provided by financing activities	101,460	50,410
Effect of currency rate movement on cash balances	(75)	2,176
Increase (decrease) in cash and cash equivalents	(43,586)	10,347
Cash and cash equivalents, beginning of the year	43,951	33,604
Cash and cash equivalents, end of the year	$ 365	$ 43,951

See accompanying notes to the consolidated financial statements

	2002	2001
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	$ 4,664	$ 2,118
Cash interest paid (note 13)	$ 52,840	$ 73,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

1. SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated under the laws of Ontario to engage in the business of acquiring, expanding, developing, redeveloping and owning neighbourhood and community shopping centres.

The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles and substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which the Company is a member. The Company's significant accounting policies are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, trusts, and the Company's proportionate share of assets, liabilities, revenues and expenses of partnership and limited liability corporate ventures, which are accounted for using the proportionate consolidation method. Investments in which the Company has a significant influence are accounted for on the equity basis.

(b) Shopping Centres and Land and Shopping Centres Under Development and Redevelopment

Shopping centres are stated at the lower of cost less accumulated amortization and net recoverable amounts. Shopping centres under development and redevelopment and land held for development are stated at the lower of cost and net recoverable amounts. Cost includes all expenditures incurred in connection with the acquisition, development, redevelopment and initial leasing of the properties. These expenditures include acquisition costs, construction costs, initial leasing costs, other direct costs, building improvement costs and carrying costs. Carrying costs (including property taxes and interest on both specific and general debt, net of operating results) are capitalized to the cost of the properties until the accounting completion date (which is based on achieving a satisfactory occupancy level within a predetermined time limit).

Net recoverable amounts represent the estimated future net cash flow expected to be received from the ongoing use and residual worth of the properties. To arrive at this amount, the Company projects the cash flow for each property on an undiscounted basis and reviews the current market value of its land holdings. These projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(c) Gross Rental Income

Gross rental income includes rents earned from tenants under lease agreements, including percentage participation rents, property tax and operating cost recoveries, and incidental income, including lease cancellation payments.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Amortization

The Company follows the sinking-fund method of amortizing its buildings and improvements. Under this method, amortization is charged to income in increasing annual amounts consisting of fixed annual sums, together with interest compounded at the rate of 5% per annum, so as to fully amortize the properties over their estimated useful lives, which vary but do not exceed 40 years.

Leasing fees and tenant inducements incurred on securing leases, other than initial leases, are amortized over the term of such leases on a straight-line basis.

The Company amortizes commitment fees and other costs incurred in connection with debt financing over the term of such financing on a straight-line basis.

(e) Investment in Marketable Securities

The Company's investment in marketable securities is stated at cost unless there is a decline in value, which is considered to be other than temporary, in which case the investment is written down to estimated realizable value.

(f) Foreign Currency

The Company carries on business in the United States through operationally and financially self-sustaining entities.

Assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates. The resulting net gains or losses are accumulated as a separate component of shareholders' equity. Revenues and expenses denominated in United States dollars are translated at the average exchange rate for the year.

(g) Convertible Debentures

The Company presents its convertible debentures in their debt and equity component parts where applicable, as follows:

(i) The debt component represents the value of the semi-annual interest obligations to be satisfied by cash, discounted at the rate of interest that would have been applicable to a debt-only instrument of comparable term and risk at the date of issue. As a result, a portion of the semi-annual interest payments has been treated as a reduction of the debt component and the remainder as interest expense.

(ii) The equity component of the convertible debentures is presented under "Shareholders' Equity" in the consolidated balance sheets. A value is ascribed to the equity component as a result of the Company's ability upon maturity to convert the debentures into common shares, and is increased over its term to the full face value of the debentures by an annual charge to the deficit. In addition, debentures that provide the Company with the ability to satisfy the interest payments through the issuance of common shares are also included in the equity component of convertible debentures. A value is also ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures.

(iii) Debenture issue costs are proportionately allocated to their respective debt and equity components. The debt component of the issue costs is classified as deferred financing costs, and is amortized on a straight-line basis over the term of the debentures. The equity component of the issue costs reduces the carrying value of the equity component of the convertible debentures.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(h) **Income Taxes**

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

(i) **Financial Instruments**

The fair value of the Company's financial instruments is estimated based on the amount at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. Fair value is estimated using market values where available or using present value techniques and assumptions concerning the amount and the timing of expected future cash flows and discount rates which reflect the appropriate level of risk of the instrument. The estimated fair values may differ from those which could be realized in an immediate settlement of the instruments. The fair value of cash and cash equivalents approximates their carrying value.

Certain amounts receivable, other assets and accounts payable and accrued liabilities are assumed to have a fair value that approximates their historical cost carrying amount due to their short-term nature.

The fair value of loans receivable, mortgages and credit facilities payable, and debentures payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar corresponding term and risk.

The Company may periodically enter into interest rate swap transactions to fix interest rates on current or future outstanding debt. The initial cost of entering into such transactions is recorded as interest expense over the term of the debt. Any ongoing difference payable or receivable on such transactions is recorded as an adjustment to interest expense.

(j) **Stock-Based Compensation Plan**

The Company has a stock-based compensation plan, which is described in note 12(d). Any consideration paid on the exercise of stock options is credited to share capital.

(k) **Statements of Funds from Operations and Cash Flows**

As is common practice within the real estate industry, the Company has included statements of funds from operations in its financial statements. This measurement, which is an important component of cash flow, is considered a meaningful and useful indicator of real estate operating performance. Funds from operations is the equivalent of income before extraordinary items adjusted for income and dividends received from equity-accounted investments, future income taxes, amortization of capital items and any gain or loss on sale of, or provision against, capital items. Funds from operations excludes unremitted funds from operations from equity-accounted investments.

(l) **Use of Estimates**

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from such estimates.

2. CHANGE IN ACCOUNTING POLICY

The Company has a stock-based compensation plan as described in note 12(d). Effective January 1, 2002, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to stock-based compensation. The new standard requires stock-based payments and direct awards made to non-employees and direct awards, stock appreciation rights and similar awards to employees that are settled in cash or equity instruments to be determined using a fair value based method.

In accordance with the new standard, the Company discloses net earnings (and earnings per share) on a pro-forma basis as if the fair value based accounting method had been applied to its stock-based compensation for awards granted after January 1, 2002.

During the year ended December 31, 2002, the Company granted 774,500 options which had an approximate fair value of $0.5 million at the time of issue. If the fair value based accounting method was used $0.2 million ($0.01 per share basic and diluted) would be the pro-forma cost for the year ended December 31, 2002, in the determination of pro-forma net earnings of $29.4 million. Pro-forma basic and diluted net earnings per share for the year ended December 31, 2002 would be $0.73.

3. FIRST CAPITAL INC. TRANSACTION

Effective April 1, 2002, the Company purchased from its largest shareholder, Gazit 1997 Inc. ("Gazit"), all of the issued and outstanding common shares of First Capital Inc. ("FCI"). The Company received a valuation of FCI and an independent opinion as to the fairness, from a financial point of view, of the consideration paid. The acquisition was accounted for using the purchase method. FCI owns a portfolio comprising six neighbourhood and community shopping centres and two freestanding retail buildings in Quebec, with approximately 0.8 million square feet of gross leasable area. Mortgages payable secured by seven of the eight properties totalled $22.9 million, with a weighted average interest rate of 7.7%. The aggregate purchase price of $31.65 million for the FCI shares was satisfied through the issuance of 601,630 common shares of the Company (at $12.30 a share) and $28.16 million in principal amount of the Company's 7.25% convertible debentures. The amount of 7.25% convertible debentures was calculated based on a price of $84.34 per $100 principal amount. In addition, in connection with post-closing funding requirements of FCI, the Company required Gazit to provide additional cash of $5 million in return for the issuance of an additional $5.73 million of 7.25% convertible debentures based on a price of $84.34 per $100 principal amount plus accrued interest.

The consideration paid and received on the acquisition of First Capital Inc., expressed in thousands of dollars, were as follows:

First Capital Realty Inc. common shares	$	7,400
First Capital Realty Inc. 7.25% convertible debentures		23,747
7.25% convertible debenture interest accrued		503
Consideration paid	$	31,650
Shopping centres	$	54,763
Land and shopping centres under development and redevelopment		1,850
Working capital, including cash of $1,657		1,607
Mortgages payable		(22,872)
Future income tax liability		(3,698)
Consideration received	$	31,650

4. SHOPPING CENTRES

Shopping centres, expressed in thousands of dollars, consist of the following:

	2002	2001
Land	$ 154,856	$ 111,420
Buildings and improvements	738,512	563,818
Deferred leasing costs	15,418	11,628
	908,786	686,866
Accumulated amortization	(33,169)	(25,390)
	$ 875,617	$ 661,476

In 2002, in addition to the eight properties acquired as part of the FCI transaction described in note 3, the Company acquired 10 properties in five separate transactions containing a total of 1.2 million square feet for a total of $105.5 million. These were financed with $53.9 million in cash, $15.0 million with a short-term vendor take back mortgage which was repaid before year end, $35.7 million in new mortgages, and $0.9 million in shares of the Company.

In 2001, the Company acquired three properties and its development partners 50% interest in five shopping centres for a total of $73.6 million. These were financed with $25.3 million in cash, $14.6 million in mortgages assumed and $33.7 million in new mortgages.

In October 2002, the Company received a $1.6 million lease termination payment in respect of a 94,000 square foot store in Sherwood Towne Square in Sherwood Park, Alberta. The Company subsequently sold this store and related parking for cash proceeds of $4.4 million, and a $0.1 million gain.

In August 2001, Centrefund Realty (U.S.) Corporation ("CEFUS") disposed of a shopping centre in Florida for $33.1 million (US$21.0 million), resulting in a gain of $8.1 million (US$5.1 million). The gain recognized on the disposal of this property was contemplated under the terms of the Equity One, Inc. purchase and sale agreement.

5. LAND AND SHOPPING CENTRES UNDER DEVELOPMENT AND REDEVELOPMENT

Land and shopping centres under development and redevelopment, expressed in thousands of dollars, consist of the following:

	2002	2001
Acquisition costs	$ 28,811	$ 18,669
Development and redevelopment costs	19,332	17,442
Interest costs	3,412	2,894
	$ 51,555	$ 39,005

During the year, $22.2 million (2001 - $2.9 million) of costs relating to four (2001 - one) projects under development totalling 0.3 million (2001 - 0.1 million) square feet were completed and transferred to Shopping Centres.

During the year, the Company purchased an interest in four (2001 - five) sites for development with a potential developable area of approximately 0.6 million (2001 – 0.3 million) square feet at a cost of $13.5 million (2001 - $7.3 million).

5. **LAND AND SHOPPING CENTRES UNDER DEVELOPMENT AND REDEVELOPMENT (continued)**

During the year, the Company's co-tenancy in Brampton, Ontario, in which the Company holds a 50% interest, sold 20.4 acres of land. The Company's 50% share of proceeds and net gains were approximately $4.3 million and $0.5 million, respectively.

Interest and general and administrative expenses capitalized to development and redevelopment properties during the twelve months ended December 31, 2002 totalled $1.8 million, (2001 – $2.1 million) and $0.3 million (2001- nil), respectively.

6. **INVESTMENT IN EQUITY ONE, INC.**

The Company's investment in Equity One, Inc. ("Equity One") expressed in thousands of dollars, consists of the following:

	2002	2001
Investment in Equity One, beginning of the year	$ 190,774	$ -
Equity One transaction (a)	-	189,483
Equity income	21,606	4,080
Less dividends received	(18,575)	(4,481)
Purchase of Equity One common shares (b)	13,209	-
Dilution gain (c)	3,290	-
Cumulative currency effect	(1,332)	1,692
Investment in Equity One, end of the year	$ 208,972	$ 190,774
Weighted average ownership interest in Equity One	33%	36%

(a) Effective September 20, 2001, the Company sold all the outstanding shares of its wholly owned subsidiary, CEFUS, to Equity One (NYSE:EQY), a self-administered and self managed real estate investment trust, in exchange for 10,500,000 shares of common stock of Equity One.

The Company and Equity One were each indirectly controlled subsidiaries of Gazit Globe (1982) Ltd. ("Gazit"), an Israeli corporation trading on the Tel Aviv Stock Exchange. The transaction was between parties under common control and there was not a substantive change in the controlling interests of CEFUS. As a result, the investment in Equity One was recorded using the carrying amount of the Company's net investment in CEFUS and related transaction costs.

6. **INVESTMENT IN EQUITY ONE, INC.** (continued)

The following is a summary of the Company's net investment in CEFUS as at September 20, 2001, prior to the Equity One transaction, and the Company's corresponding investment in Equity One as at September 20, 2001, expressed in thousands of dollars.

Shopping centres	$	413,496
Land and shopping centres under development		14,115
Cash and cash equivalents		17,417
Amounts receivable		22,322
Other assets		14,735
Mortgages payable and credit facilities		(268,883)
Accounts payable and accrued liabilities		(13,472)
Future income tax liabilities		(10,093)
Net investment in CEFUS, September 20, 2001, prior to disposition		189,637
Transaction costs and other adjustments		(154)
Investment in Equity One, September 20, 2001	$	189,483

(b) During the year ended December 31, 2002, in connection with a private placement and a public offering of Equity One's common shares and through participation in Equity One's dividend reinvestment plan, the Company's U.S. subsidiaries acquired an additional 630,286 common shares of Equity One at an average price of US$13.26 per share.

(c) During the year ended December 31, 2002, the number of Equity One's common shares outstanding increased from 28.6 million to 34.2 million, resulting in a reduction of the Company's ownership interest in Equity One from 36% at December 31, 2001 to 33% at December 31, 2002. As a result, the Company has recorded a dilution gain of $3.3 million during the year. Subsequent to year end, the Company's ownership interest in Equity One was further diluted to approximately 21% (see note 20(b)).

(d) The closing price on the NYSE of Equity One's common shares at December 31, 2002 was US$13.35 (December 31, 2001 – US$13.74) per share. The book value per share of the Company's investment in Equity One at December 31, 2002 is US$11.90 (December 31, 2001 – US$11.41). At December 31, 2002, 34.2 million (December 31, 2001 – 28.6 million) shares of Equity One were outstanding, of which 11.1 million shares (December 31, 2001 – 10.5 million shares) were held by the Company (note 20(b)).

The Company's share of Equity One's unremitted funds from operations using Canadian generally accepted accounting principles ("GAAP") and expressed in thousands of Canadian dollars, which has not been included in the Company's funds from operations, is as follows:

		2002		2001
Equity One's funds from operations, Canadian GAAP	$	71,402	$	16,113
Company's weighted average ownership percentage of Equity One		33%		36%
Company's share of Equity One's funds from operations		23,923		5,774
Less: dividends received by the Company		(18,575)		(4,481)
Company's share of Equity One's unremitted funds from operations	$	5,348	$	1,293

7. AMOUNTS RECEIVABLE

Amounts receivable, expressed in thousands of dollars, consist of the following:

	2002	2001
Accounts receivable	$ 4,704	$ 3,117
Cash flow loans and mortgages receivable (a)	3,293	4,255
Loan receivable from a municipality (b)	1,234	1,264
Loans receivable from development partners (c)	12,148	9,225
	$ 21,379	$ 17,861

(a) In connection with the 1997 acquisition of a portfolio of shopping centres, the Company acquired a 50% interest in various cash flow loans and mortgages receivable. The loans and mortgages receivable bear interest at varying rates currently ranging from 8.5% to 10% per annum and are generally due on demand.

(b) The loan receivable from a municipality bears interest at the rate of 8% per annum, calculated and compounded quarterly, and is repayable quarterly over a period ending in December 2021.

(c) The Company has funded its partners' share of certain development activities. The loans bear interest at an average of 10% and are repayable from the development partner's share of proceeds generated from refinancings or sales. The Company has taken assignments of the development partners' equity interests in the development partnerships as security for the loans receivable.

The fair values of the loans and mortgages receivable at December 31, 2002 and 2001 approximate their carrying values.

The Company is exposed to credit risk to the extent that tenants and/or debtors fail to meet their obligations. This risk is alleviated by minimizing the amount of exposure the Company has to any one tenant, ensuring a diversified tenant mix and by the hypothecated properties.

8. OTHER ASSETS

Other assets, expressed in thousands of dollars, consist of the following:

	2002	2001
Deferred financing, issue and interest rate hedge costs	$ 6,569	$ 6,517
Investment in marketable securities	1,292	2,845
Prepaid expenses and other assets	10,394	6,762
	$ 18,255	$ 16,124

Based on publicly listed trading prices, as at December 31, 2002 the market value of the Company's investment in marketable securities was $1.4 million (2001 – $3.2 million).

9. MORTGAGES PAYABLE AND CREDIT FACILITIES

(a) Mortgages payable and credit facilities, secured by shopping centres and the Equity One common shares, presented by geographic location and expressed in thousands of dollars, consist of the following:

	2002			2001
	Canada	U.S.	Total	Total
Fixed rate	$ 424,683	$ 15,776	$ 440,459	$ 375,503
Floating rate	53,629	92,995	146,624	84,853
	$ 478,312	$ 108,771	$ 587,083	$ 460,356

Canada:

Fixed rate financing bears interest at an average fixed rate of 7.3% (2001 - 7.6%) and matures in years ranging from 2003 to 2019. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lending and bankers' acceptance rates and matures in 2003.

United States:

Fixed rate financing bears interest at an average fixed rate of 5.5% (2001 - 6.1%) and matures in 2006. Floating rate financing bears interest primarily at the London Inter-Bank Offering Rate ("LIBOR") plus 150 basis points and matures in 2007. Floating rate financing of $15.8 million (US $10.0 million) has been capped at 7.0% until September 2006. $105.1 million of the U.S. fixed and floating rate financing is secured by 10.5 million Equity One shares.

As at December 31, 2002, principal repayments of mortgages payable and credit facilities, expressed in thousands of dollars, are due as follows:

	Canada	U.S.	Total
2003	$ 86,228	$ 9,541	$ 95,769
2004	19,931	5,900	25,831
2005	14,629	5,900	20,529
2006	38,150	5,900	44,050
2007	55,270	81,530	136,800
Thereafter	264,104	-	264,104
	$ 478,312	$ 108,771	$ 587,083

9. **MORTGAGES PAYABLE AND CREDIT FACILITIES (continued)**

The fair value of mortgages payable and credit facilities at December 31, 2002 and 2001 approximate their carrying values.

The Company is exposed to financial risk arising from fluctuations in interest rates that could cause a variation in earnings. As part of its risk management program, the Company endeavours to maintain an appropriate mix of fixed rate and floating rate debt and strives to match the nature and timing of lease inflows to financing thereon. The Company periodically enters into interest rate swap transactions to fix interest rates on current or future outstanding debt.

The Company has entered into interest rate swap agreements with a notional amount of $15.8 million (US$10.0 million). Under the terms of these swap agreements, the Company pays a fixed rate of interest at the rate of 5.5% on the notional amount and receives a floating rate interest on the same notional amounts based on LIBOR. These swap agreements mature in September 2006.

(b) At December 31, 2002, the Company has $23.8 million of undrawn credit facilities, which are secured by certain shopping centres, available for acquisitions, development, and general corporate purposes. In addition, the Company has unencumbered shopping centres with a book value of approximately $67.9 million.

10. **CONVERTIBLE DEBENTURES PAYABLE**

As at December 31, 2002, the Company has outstanding four series of convertible debentures. All of the debentures are unsecured subordinated debentures, require interest payable semi-annually and are convertible into common stock of the Company at the holders' option until the day prior to the redemption date. In addition, the Company has the right to settle its obligations to repay principal upon redemption or maturity by issuing common stock. If the Company chooses to issue common stock, it is to be valued at 95% of the weighted average trading price for the 20 consecutive trading days ending five days prior to the redemption or maturity date, as may be applicable. In the case of the 7.0% and the 7.25% series, the Company also has the option, subject to regulatory approval, of settling interest due from time to time by way of the issue of common shares valued in the same fashion as with respect to the repayment of principal on those debentures.

The other terms of the convertible debentures are summarized as follows:

Series	Interest Rate	Conversion Price	Maturity	Earliest Redemption Date
A	8.50%	$14.98 per common share	November 30, 2006	November 30, 2002
B	7.875%	$16.43 per common share	January 31, 2007	January 31, 2003
C	7.00%	$22.71 per common share	February 28, 2008	February 28, 2004
D	7.25%	$24.40 per common share	June 30, 2008	June 30, 2004

The components of the Company's convertible debentures, expressed in thousands of dollars, are classified as follows:

		2002			2001		
Series	Interest Rate	Principal	Liability	Equity	Principal	Liability	Equity
A	8.50%	$ 57,441	$ 15,580	$ 43,557	$ 57,441	$ 18,713	$ 39,964
B	7.875%	97,522	25,692	74,764	97,522	30,683	68,980
C	7.00%	99,999	-	101,314	99,999	-	100,538
D	7.25%	161,477	-	151,695	100,000	-	100,231
		$ 416,439	$ 41,272	$ 371,330	$ 354,962	$ 49,396	$ 309,713

10. CONVERTIBLE DEBENTURES PAYABLE (continued)

Effective April 1, 2002, the Company issued $28.16 million in principal amount of 7.25% convertible debentures to Gazit as a result of the First Capital Inc. transaction (note 3). The Company issued an additional $5.73 million in principal amount of 7.25% convertible debentures to Gazit on May 30, 2002 (note 3).

During 2002, 915,054 and 294,603 common shares were issued to pay interest to holders of the Company's 7.25% convertible debentures and 7.0% convertible debentures, respectively.

In December 2002, the Company exchanged $22.1 million 7.5% debentures for $27.6 million principal amount of 7.25% convertible debentures under an offer announced on November 4, 2002. In January 2003, a further $0.18 million was exchanged for $0.22 million principal amount of 7.25% convertible debentures.

Based on publicly listed trading prices, as at December 31, 2002, the market value of the principal amount of the convertible debentures was $364.4 million (2001 - $315.3 million).

11. DEBENTURES PAYABLE

The Company's 7.5% debentures, totalling $15.2 million (2001 - $37.9 million), mature on December 1, 2003 and bear interest at a rate of 7.5% per annum, payable semi-annually. These debentures are subordinated direct obligations of the Company, secured by a floating charge on real and immoveable property comprising four of the Company's shopping centres.

During the year, $22.1 million of 7.5% debentures were exchanged for 7.25% convertible debentures (note 10) and $0.6 million (2001 - $0.3 million) were repurchased and cancelled.

Based on publicly listed trading prices, as at December 31, 2002, the market value of the 7.5% debentures was $15.5 million (2001 - $37.6 million).

12. SHAREHOLDERS' EQUITY

Shareholders' equity, expressed in thousands of dollars, consists of the following:

	2002	2001
Equity component of convertible debentures (note 10)	$ 371,330	$ 309,713
Share capital (a)	200,183	154,499
Warrants (b)	10,303	2,000
Cumulative currency translation adjustment (c)	11,697	12,683
Deficit	(85,757)	(69,324)
	$ 507,756	$ 409,571

(a) Share Capital

The Company has an unlimited number of authorized preference shares and common shares. The preference shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution; preference shares are non-voting and rank in priority to the common shares with respect to dividends and distributions upon dissolution. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution. Dividends are payable on the common shares as and when declared by the Board of Directors.

12. SHAREHOLDERS' EQUITY (continued)

The following table sets forth the particulars of the issued and outstanding shares of the Company:

	Number of Common Shares		Stated Capital (thousands of dollars)
Issued and outstanding at December 31, 2000	15,376,986	$	154,498
Issued in connection with convertible debenture conversions	38		1
Issued and outstanding at December 31, 2001	15,377,024		154,499
Issued in connection with acquisitions (notes 3 and 4)	673,630		8,286
Issued in connection with payment of interest on convertible debentures	1,209,657		14,205
Issued in connection with exercise of warrants	1,873,406		23,598
Issued to directors, in lieu of cash compensation	9,000		113
Issue costs, net of income taxes of $310	-		(518)
Issued and outstanding at December 31, 2002	19,142,717	$	200,183

(b) **Warrants**

On April 10, 2002, the Company completed a rights offering pursuant to which its common shareholders subscribed for 12,301,619 warrants to purchase common shares. A holder of rights was entitled to subscribe for one common share purchase warrant for each 1.25 rights held at a price of $0.05 per warrant. As a result of the warrants having a fair value greater than the subscription price, $10.2 million was charged to the deficit. A corresponding amount, net of issue costs, was recorded under warrants in shareholders' equity. Each warrant entitles the holder to purchase one common share of the Company at a price of $11.80 per share during a three-month exercise period commencing on June 1 and ending on August 31 in each year from 2002 to 2008, on and subject to certain terms and conditions, and may be exercisable in certain other limited circumstances. The maximum number of warrants available under the rights offering was subscribed by holders of common shares. In connection with the rights offering, the conversion prices of the Company's outstanding convertible debentures, and the exercise prices of the Company's outstanding advisory warrants and options, in accordance with the terms of those instruments, were adjusted by a factor of .9667.

During the year ended December 31, 2002, 1,873,406 warrants were exercised at a price of $11.80 per share resulting in proceeds to the Company of $22.1 million. In addition, the corresponding amount of issue costs and warrant costs were transferred to share capital.

At December 31, 2002, there were 10,428,213 outstanding warrants (2001-nil) exercisable at $11.80 per share and 1,000,000 outstanding warrants (2001 – 1,000,000) exercisable at $13.53 per share.

(c) **Cumulative Currency Translation Adjustment**

The Company maintains its accounts in Canadian dollars. However, a portion of its operations are located in the United States and therefore the Company is subject to foreign currency fluctuations which may, from time to time, impact its financial position and results. The Company's U.S. operations are financed in part by U.S.-dollar denominated credit facilities, which are serviced by the cash flow generated by the Company's dividends from Equity One. This reduces the Company's exposure to fluctuations in foreign currency exchange rates. The Company has not hedged its U.S. dollar currency risk. As a result, a strengthening of the Canadian dollar would result in a reduction in the carrying value of the Company's net assets in the United States.

12. SHAREHOLDERS' EQUITY (continued)

The cumulative currency translation adjustment represents the cumulative unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States. The change for the year reflects the impact of U.S. currency movements during the year on these net assets.

The rate of exchange in effect on December 31, 2002 was US$1.00 = Cdn$1.58 (December 31, 2001 – Cdn$1.59). The average rate of exchange for 2002 was US$1.00 = Cdn$1.57 (2001 – Cdn$1.55).

(d) Stock Options

The Company is authorized to grant up to 2,125,000 (2001 – 1,250,000) common shares to the employees, officers and directors of the Company and its Property Manager. As at December 31, 2002, the Company had issued and outstanding, to its Property Manager's employees, officers and directors, 425,000 outstanding stock options (2001 - 480,000) at an exercise price of $13.82 which vest 20% annually and expire in October 2008. During 2002, 55,000 stock options were cancelled (2001 - 7,500). In addition, 774,500 options were issued to the Company's officers and directors at a current exercise price of $12.42, which generally vest over three years and expire in 2012. 340,000 and 207,500 of the options issued to the employees, officers and directors of the Property Manager and the Company, respectively, are vested at December 31, 2002. As at December 31, 2002, no stock options had yet been exercised.

13. INTEREST

Cash interest paid, expressed in thousands of dollars, consists of the following:

	2002	2001
Mortgage and credit facility interest expense	$ 33,454	$ 42,021
Debenture interest expense	2,734	2,859
Convertible debenture interest expense	4,438	5,149
Interest expense	40,626	50,029
Payments on convertible debentures, net of interest expensed	24,395	21,663
Less: convertible debenture interest paid in common shares	(14,207)	-
Interest capitalized to land and shopping centres under development and redevelopment	1,796	2,137
Other	230	(458)
Cash interest paid	$ 52,840	$ 73,371

14. RECOVERY OF PREVIOUS MANAGEMENT'S INCENTIVE AND OTHER FEES

On August 17, 2001, the Company settled the Fair Value Incentive Amount dispute with Dawsco Realty Advisory Corp. ("the Advisor"), a private Ontario corporation controlled by two of the Company's former directors, one of whom was the Chairman, President and Chief Executive Officer of the Company until August 18, 2000. The dispute was in respect of incentive and other fees that the Advisor claimed it was entitled to under the Advisory Agreement which was terminated on August 18, 2000. Former management of the Company, which included the Company's former Chairman, President and Chief Executive Officer, who also controlled the Advisor, calculated and accrued the Fair Value Incentive Amount to be $21.35 million. This amount was recorded after an offer by the Gazit Group to acquire a controlling interest in the Company in June 2000 and $9.2 million was advanced to the Advisor. Current management of the Company disputed the calculation of the Fair Value Incentive Amount and other amounts, including amounts that had been advanced.

The Fair Value Incentive Amount was settled at the $9.2 million amount already advanced. A recovery of expenses, before income taxes, of approximately $8.5 million (approximately $5.4 million net of income taxes) was recorded in 2001.

15. INCOME TAXES

The Company's activities are carried out directly and through operating subsidiaries, and partnership ventures and trusts in Canada and the United States. The income tax effect on operations depends on the tax legislation in each country and the operating results of each subsidiary and partnership venture and the parent Company.

The provision for income and other taxes, expressed in thousands of dollars, is calculated as follows:

	2002	2001
Provision for income taxes on income at the combined Canadian federal and provincial income tax rates	$ 18,597	$ 20,154
Increase (decrease) in the provision for income taxes due to the following items:		
Large Corporations Tax	1,850	1,600
U.S. current income and withholding taxes	3,424	1,962
	5,274	3,562
Changes in future income tax rates	(917)	353
United States operations - other	(3,701)	(7,155)
Canadian operations - other	(457)	(624)
	(5,075)	(7,426)
	$ 18,796	$ 16,290

The Company's net future income tax assets, expressed in thousands of dollars, are as follows:

	2002	2001
Net future income tax assets:		
Losses available for carry-forward	$ 6,486	$ 16,436
Shopping centres	11,454	5,776
Investments	(6,034)	(4,800)
Other assets	1,303	1,584
Canadian and U.S. minimum tax credits	352	352
	$ 13,561	$ 19,348

15. **INCOME TAXES (continued)**

At December 31, 2002, the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately $20.0 million, which have been recognized as future income tax assets and are available to reduce future Canadian taxable income. These tax-loss carry-forwards expire at various dates between December 31, 2006 and December 31, 2009.

16. **PER SHARE CALCULATIONS**

Basic per share information for the year ended December 31, 2002 is calculated based on a weighted average of 16,833,910 common shares outstanding during the year (December 31, 2001 – 15,377,001).

The determination of basic earnings per share for the year ended December 31, 2002 reflects a reduction of $17.2 million (December 31, 2001 – $14.7 million) to reported net earnings, which represents interest and accretion on the equity component of convertible debentures, net of income taxes.

Diluted per share information for the year ended December 31, 2002 is calculated based on a weighted average of 36,426,268 common shares (December 31, 2001 – 33,035,160 common shares), which reflects the conversion of the convertible debentures and the exercise of the share purchase warrants using the treasury stock method. The diluted per share information for the year ended December 31, 2002 does not reflect the exercise of 1,000,000 outstanding warrants exercisable at $13.53 (2001 – 1,000,000 warrants) or 1,199,500 issued options (2001 – 480,000 options) (note 12) as their conversion prices were higher than the average price of the Company's common shares during the year.

17. **SEGMENTED INFORMATION**

The Company and its subsidiaries operate in the shopping centre segment of the real estate industry in both Canada and the United States.

Operating income by geographic segment for the year ended December 31, 2002, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	$ 125,635	$ -	$ 125,635
Property operating costs	47,318	-	47,318
Rental income	78,317	-	78,317
Equity income from Equity One, Inc.	-	21,606	21,606
Interest and other income	1,768	248	2,016
Interest expense	36,276	4,350	40,626
Corporate expenses	5,932	901	6,833
Operating income before amortization	37,877	16,603	54,480
Amortization	9,847	84	9,931
Operating Income	$ 28,030	$ 16,519	$ 44,549

17. SEGMENTED INFORMATION (continued)

Operating income by geographic segment for the year ended December 31, 2001, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	$ 97,866	$ 42,814	$ 140,680
Property operating costs	35,103	14,581	49,684
Rental income	62,763	28,233	90,996
Equity Income from Equity One, Inc.	-	4,080	4,080
Interest and other income	4,259	1,948	6,207
Interest expense	34,224	15,805	50,029
Corporate expenses	5,535	1,446	6,981
Operating income before the following items	27,263	17,010	44,273
Amortization	7,889	5,207	13,096
Recovery of previous management's incentive and other fees	4,722	3,816	8,538
Operating income	$ 24,096	$ 15,619	$ 39,715

18. JOINT VENTURES

The Company participates in joint ventures that own land, shopping centres and shopping centres under development.

The following amounts, expressed in thousands of dollars, are included in the consolidated financial statements and represent the Company's proportionate interest in the financial accounts of the joint ventures:

	2002	2001
Assets	$ 59,855	$ 44,534
Liabilities	$ 29,743	$ 20,796
Revenues	$ 7,912	$ 5,326
Expenses	$ 5,157	$ 4,144
Cash flow provided by (used in):		
Operating activities	$ 3,012	$ 2,836
Investing activities	$ (17,276)	$ (5,443)
Financing activities	$ 8,098	$ 3,627

The Company is contingently liable for certain of the obligations of the partnership ventures and all of the net assets of the partnership ventures are available for the purpose of satisfying such obligations and guarantees (see note 20 (a)).

19. PROPERTY AND ASSET MANAGEMENT FEES

Centrecorp Management Services Limited (the "Property Manager") is responsible for all property management functions, including property administration, maintenance and leasing. The Property Management Agreement expires March 29, 2004.

In December 2001, the Company formed a joint venture with the Property Manager to provide property management, operations, leasing and project management services in respect of shopping centre properties located in the province of Quebec. During 2002, the Company earned $0.1 million (2001 - nil) in income from its 50% interest in the joint venture. The joint venture agreement ends in March 2004.

The Company earned asset management fees from an entity controlled by Gazit, with respect to Gazit's shopping centre business in Quebec, until April 1, 2002 when the Company purchased that business (note 3). During the year, fees earned amounted to $0.1 million (2001 – $0.2 million).

Until September 20, 2001, Equity One Realty & Management Inc. ("Equity One Realty"), a wholly owned subsidiary of Equity One, was retained by the Company as an asset manager of the Company's United States portfolio and property manager of the majority of the Company's Florida properties. Equity One Realty earned fees of $1.1 million in 2001 under the terms of these agreements.

20. CONTINGENCIES

(a) The Company has provided guarantees for approximately $9.7 million (2001 - $5.4 million) to various lenders in connection with loans advanced to its joint venture partners.

(b) The Company is also contingently liable for letters of credit in the amount of $8.5 million (2001 - $ 6.9 million) issued in the ordinary course of business.

21. SUBSEQUENT EVENTS

(a) On February 12, 2003, Equity One, Inc., the Company's U.S. affiliate, completed the acquisition of IRT Property Company ("IRT") in a merger transaction. As a result of the merger, Equity One had US$790 million in equity market capitalization and owned 180 properties totalling 18.4 million square feet, located in the Southern United States.

Equity One acquired all the issued and outstanding shares of IRT for approximately US$426 million. The transaction was funded 56.6% in shares (17,489,562 shares of Equity One) and 43.4% in cash (US$188 million). After the transaction, the Company was diluted from an approximate 33% ownership interest in Equity One common shares to approximately 21%. As a result, the Company will recognize, for accounting purposes, a pre-tax dilution gain of approximately $12 million.

Equity One funded a portion of the cash consideration through the private placement of 6.9 million shares of Equity One common stock to its existing, affiliated investors at a price of US$13.50 per share. The Company purchased 1,036,650 of the 6.9 million common shares, which was funded on closing 50% through new bank financing secured against the shares and the remainder from existing lines of credit.

(b) Subsequent to year-end, the Company purchased in six separate transactions, four properties, an additional interest in one property and one development site for $37.4 million. Consideration paid was $11.8 million in cash, $23.1 million in new mortgages and $2.5 million in shares of the Company.

(c) On February 28, 2003, in accordance with the terms of the 7.0% convertible debentures, 303,810 common shares were issued to pay interest to holders of the Company's 7.0% convertible debentures.

22. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to reflect the current year's presentation.

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TORONTO STOCK EXCHANGE LISTINGS

Common Shares:	FCR
7.5% debentures:	FCR.DB
8.5% convertible debentures:	FCR.DB.A
7.875% convertible debentures:	FCR.DB.B
7% convertible debentures:	FCR.DB.C
7.25% convertible debentures:	FCR.DB.D
Warrants:	FCR.WT

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Chief Financial Officer

(1) Member of Audit Committee (2) Member of Compensation & Corporate Governance Committee

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